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HOUSING LOS ANGELES
AFFORDABLE HOUSING FOR THE FUTURE

Report of:

The CITY of LOS ANGELES
BLUE RIBBON COMMITTEE
for AFFORDABLE HOUSING

December 1988

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Report of:

The CITY of LOS ANGELES
BLUE RIBBON COMMITTEE
for AFFORDABLE HOUSING

December 1988

City of Los Angeles

December 1, 1988

Honorable Tom Bradley, Mayor
Honorable Members of the City Council

Dear Mayor Bradley and Members of the City Council:

It is with great hope and expectation for the citizens of our great city that I deliver to you the final report of the Blue Ribbon Committee for Affordable Housing.

Thanks to Mayor Bradley's insight, the Committee was made up of a group of extraordinarily knowledgeable people from all segments of the community who, notwithstanding their diverse backgrounds and ethnicity, were unanimous or nearly unanimous on all of the recommendations contained in this report.

This was truly a working committee. Thousands of hours were expended at committee and subcommittee sessions in addition to the review of a multitude of publications dealing with housing problems and their solutions.

The problems we encountered were in a constant state of flux due to shifts in intervention by federal, state and county governments in addition to rapid market changes. Due to this ever changing situation, it is imperative that a "Housing Commission" be established immediately to bring greater order to the City's housing program. There are now nearly a dozen city departments dealing with the problem of housing for the low income population, with little coordination among them.

The Blue Ribbon Committee Members devoted time and effort above and beyond the call of duty. Nearly all the members responded to a most vigorous program necessary to complete the work in a reasonable time frame. Special mention must be made to the work of Robert Wycoff, Donald Mullane, Kathleen Connell, Thomas Bell, Ann Reiss Lane and Leonard Beerman who served as chairpersons of the various subcommittees. In addition, a special vote of thanks is due to our Executive Director, Gary Squier and his staff whose knowledge and

guidance has been an integral part of this report and any success which we achieve is due to their devotion to this work.

Under normal circumstances the work of a committee ceases with the delivery of a final report. However, many of the members of this committee have pledged to devote such additional time as is necessary to ensure that these proposals are speedily implemented.

We look forward to working with you in enacting the necessary ordinances to facilitate the provisions of this report.

Very truly yours,

Sydney M. Irmas

SYDNEY M. IRMAS
Chairman
Los Angeles Blue Ribbon Committee
for Affordable Housing

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BLUE RIBBON COMMITTEE FOR AFFORDABLE HOUSING

PLAN OF ACTION

This report of the Blue Ribbon Committee for Affordable Housing is the product of eight months of work by the committee and its staff in response to a growing housing crisis in the City of Los Angeles. The committee recognizes that implementation of the many recommendations in the report will take effort, commitment and resolve. The housing problem is one of the city's most complex issues. Its causes are multiple, therefore efforts to alleviate it require the coordination of a broad array of resources, programs and policies.

The Blue Ribbon Committee believes that the city can make a difference. It is within the power of the the City of Los Angeles to address and begin to resolve the housing crisis by mobilizing both public and private resources. This mobilization will require the creation of a new city entity, a Housing Commission, to bring focus and coordination to city housing activities. It is this commission that should be charged with the task of developing the programs and policies set forth in the committee's report.

Therefore, the Blue Ribbon Committee recommends that the Mayor *immediately* appoint a Housing Commission comprised of seven appointed and four ex officio members, and that this Housing Commission be provided with an executive director and a small staff so that it can begin work on the urgent task of implementing the recommendations contained in the Blue Ribbon Committee's report.

The committee believes that the following initiatives should be given the highest priority when the Housing Commission begins its work.

Priority Steps for the Housing Commission

1. Join with the corporate sector to establish the Los Angeles Housing Partnership to launch a housing production program.

2. Support lifting of the Community Redevelopment Agency spending cap; allocate $2 billion to affordable housing over a 20 year period.

3. Identify means by which housing lobbying efforts can be expanded in Sacramento and Washinton, D.C. to generate additional housing funds for Los Angeles.

4. Issue a $100 million general obligation bond for seismic rehabilitation of brick apartment buildings.

5. Develop an expanded brick building housing rehabilitation program directed at preserving affordability. Combine with an extension of the Earthquake Hazard Reduction Ordinance based on building condition.

6. Formulate a development linkage program that would generate funds to mitigate the increased pressures on the housing system resulting from new commercial development.

7. Review housing impacts of proposed public policy, report those impacts to the Mayor and City Council and recommend mitigation measures.

8. Guide the Community Development Department as it implements the recommendations of the Blue Ribbon Committee to preserve the affordability of federally subsidized, privately owned housing with expiring low income use restrictions.

9. Propose legislation to increase the document transfer tax to support a housing trust fund.

10. Establish a permit ranking system under the Building Permit Allocation Ordinance that gives lowest priority to projects that will result in a net reduction of affordable housing.

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1. THE BLUE RIBBON COMMITTEE

The Blue Ribbon Committee for Affordable Housing was convened by Mayor Tom Bradley in April of 1988 to advise the city on housing programs and policies. The committee was comprised of 35 individuals representing the public, corporate and community sectors of Los Angeles. Members included bankers, elected officials, religious leaders, corporate leaders, senior citizens and for profit and non-profit developers.

The committee was organized to assess the seriousness of the city's housing problems, and to establish a framework for addressing them. It was asked to recommend public and private sector responses to alleviate the city's housing problems. Under the leadership of Chairman Sydney M. Irmas, the Blue Ribbon Committee developed a comprehensive strategy for improving the city's housing system and generated a set of ideas for immediate implementation.

It was the consensus of the Blue Ribbon Committee that Los Angeles is faced with a serious housing crisis that must be confronted immediately and directly. The recommendations flow from a belief that strong commitment and strong leadership can reverse the loss of affordable housing, and that Los Angeles can one day seek to guarantee its residents a decent home at an acceptable cost.

Six subcommittees were created to concentrate on key issues facing the city. The subcommittees were:

- Housing Preservation,
- New Development Concepts,
- Brick Buildings,
- Housing Partnerships,
- Expiring Use Restrictions, and
- Housing Commission.

The subcommittees deliberated over the summer, cumulatively reviewing over 20 draft reports at over 25 meetings before arriving at their final recommendations.

MEMBERS OF THE BLUE RIBBON COMMITTEE

Committee Chairman

Sydney M. Irmas, *Chairman of the Board, L.A. Family Housing Corp.*

Subcommittee Chairs

Rabbi Leonard I. Beerman, (New Development Concepts) *Founding Rabbi, Leo Baeck Temple*

Thomas Bell, (Brick Buildings) *Partner, Weinstock / Bell*

Kathleen M. Connell, (Housing Commission) *Chair and Managing Director, Center for Finance and Real Estate at UCLA*

Ann Reiss Lane, (Expiring Use Restrictions) *Vice President, Board of Fire Commissioners*

Donald A. Mullane, (Preservation) *Executive Vice President, Bank of America*

Robert E. Wycoff, (Partnerships) *President and Chief Operating Officer, ARCO*

Members

Richard S. Amador, *Chairman, CHARO Housing Development Corporation II*

William Baer, *Associate Professor of Urban and Regional Planning, USC*

Nicholas Binkley, *Vice Chairman, Security Pacific Financial Services System, Inc.*

David R. Carpenter, *Chairman and Chief Executive Officer, Transamerica Occidental Life*

Sister Diane Donoghue, *St. Vincent's Church*

Dr. William S. Epps, *Pastor, Second Baptist Church, Los Angeles*

Daniel Garcia, *Partner, Law Firm, Munger, Tolles & Olson*

Sherman Gardner, *Vice President, Goldrich & Kest Industries*

Allan Heskin, *Associate Professor of Urban Planning, UCLA*

Robert Hohne, *Senior Vice President (retired), Southern California Gas Company*

Werner Illing, *President, Council on Aging*

Anita Landecker, *Program Director, Local Initiatives Support Corporation*

Allan Lowy, *President, Lowy Development Corp.*

Stephen D. McAvoy, *Senior Vice President and Comptroller, First Interstate Bank*

Henry McGee, *Professor of Law, UCLA School of Law*

Archbishop Roger Michael Mahony, *Archbishop of Catholic Diocese of Los Angeles*

V.C. Mathis, *Executive Secretary, Los Angeles County Building and Construction Trades Council*

Gloria Molina, *Councilwoman, First District*

Stephen D. Moses, *Chairman, Stephen Moses Interests*

Steven T. Nutter, *Regional Director, Western States Region, International Ladies' Garment Workers' Union*

Father Luis Olivares, CMF

Nelson Rising, *Senior Partner, Maguire Thomas Partners*

Frank Scardina, *President, Kaufman & Broad of Southern California, Inc.*

Ann Sewill, *Executive Director, Los Angeles Community Design Center*

Marva Smith Battle-Bey, *Executive Director, Vermont Slauson Economic Development Corporation*

Thomas L. Stevens, Jr., *President, Los Angeles Trade-Technical College*

Mark Ridley-Thomas, *Executive Director, Southern Christian Leadership Conference*

Ted Watkins, *President, Watts Labor Community Action Committee*

STAFF

Gary Squier, *Housing Coordinator, Office of the Mayor*

Student Professional Workers: Neela Benjamin, George De La Loza, Douglas Grant, Jeffrey Hielman, Tanya Hussick, Deirdre O'Donnell, Sumanta Rey, Mathew Westfall.

Editor: Karin Pally

Special thanks to David Rosen; Mary Brooks, Housing Trust Fund Project; Ralph Esparza and David Perel, Community Development Department; John Maguire and Lester Burg, Community Redevelopment Agency; Norm Schwab, Department of City Planning; Hamilton, Rabinovitz and Alschuler; and to ARCO and Bank of America for their hospitality.

2. THE BLUE RIBBON COMMITTEE REPORT

THE REPORT

This report of the Blue Ribbon Committee for Affordable Housing outlines the housing crisis, evaluates city housing efforts and recommends programs, policies and resource allocations necessary to reduce the city's housing problem.

The committee's key finding is that Los Angeles needs a more coordinated citywide housing policy and plan as well as a new policy making body that can lead it toward resolution of the housing problem.

Central to the committee's recommendations is the creation of a housing commission that will coordinate housing policy, planning, budgeting and implementation. The committee believes that it is essential that the city focus and coordinate housing policy and planning in the same way that public works, police, harbor, fire and, other essential public services are centralized within a single policy making body. The housing crisis urgently demands a focus that can't be achieved through the current structure, a structure that involves at least 11 separate city entities in housing budgeting, implementation and policy making.

Report Structure

The Blue Ribbon Committee makes five sets of recommendations to the city for housing policies and programs, and for new housing resources. The report is organized into three principal sections. The first section describes the existing housing problem in Los Angeles, the second identifies key principles to guide policy makers in responding to the problems and the third sets forth the committee's recommendations for city actions. The recommendations are divided into five sections, the first contains a description of the committee's recommendation for the formation of a Housing Commission, the remaining four sections address specific housing programs, policies and financing vehicles.

The recommendations are organized as follows:

- Housing Commission
- New Resources for Affordable Housing
- New Housing Programs
- New City Policy
- Charges Needed in City Programs

Each recommendation in the report contains a page reference to one of the six subcommittee reports which are included as an appendix.

3. EXECUTIVE SUMMARY

THE BLUE RIBBON COMMITTEE

The Blue Ribbon Committee for Affordable Housing was convened by Mayor Tom Bradley in April of 1988 to assess the seriousness of the city's housing problems, and to establish a framework for addressing them. It was asked to recommend public and private sector responses to alleviate the city's housing problems. The committee identified the first steps toward a strategy for improving the city's housing system and generated a set of ideas for immediate implementation.

SUMMARY OF HOUSING NEED

In 1988 40,000 Los Angeles families live in garages and 150,000 households pay over one-half of their paychecks for rent. An estimated 10,000 adults and children belong to families that are completely homeless.

The Los Angeles housing crisis is one of affordability. Soaring costs of a decent place to live cause a chain reaction resulting at the extreme in thousands of homeless families and individuals. Today housing costs exceed 50 percent of the incomes of one quarter of our renters. Rent burden, overcrowding and slum conditions strip away personal dignity and opportunity for economic improvement. Housing costs are forcing our seniors on a lonely descent into poverty.

This is no longer a problem exclusive to the poor. The crisis affects low wage workers, seniors and the disabled as well as families on welfare; even middle class opportunities for homeownership are virtually gone. Only 17 percent of Los Angeles families could afford today's median priced home.

The housing problem affects the city as a whole as well as the individual. The shelter shortage pits those who have housing against those who do not. Social tensions between the housing haves and have-nots will grow as competition for shelter accelerates in a tightening housing market. The large number of rent burdened workers further destabilizes the city. If the economy falters, and jobs are lost, Los Angeles will witness a sudden and dramatic increase in homelessness of working class families.

ORIGINS OF THE CRISIS

The committee found that the city's housing activities were sufficient in the 1960s and 1970s—a period when the federal government took primary responsibility for housing the poor and low wage workers. That was a time when the average wage was adequate to support the cost of the average home or apartment. But the 1980s have seen the gap between wages and housing costs become so wide that it threatens to change the character of the city. There are five primary reasons for this change in the Los Angeles housing system.

- Population has grown faster than housing production, with a shortfall of 10,000 units per year.
- Land has become scarce and expensive as the city becomes built out.
- The economy is generating a significantly higher proportion of low wage jobs. Increasingly, wage earners are denied access to a decent home.

- "No Growth" sentiments exacerbate a tightening housing market, cutting housing production.
- The once strong federal role in housing has undergone a 75 percent reduction since 1980.

KEY FINDINGS

The Blue Ribbon Committee makes nine key findings to be considered in restructuring housing policy to address the city's housing problems.

1. Fast changing circumstances are propelling Los Angeles into a housing crisis that is degrading the quality of the city.
2. For the first time, the City of Los Angeles must assume principal responsibility for marshalling resources to solve the housing crisis.
3. Housing resources must triple to keep the housing problem from getting worse.
4. A strategic housing production plan is essential to effective coordination and utilization of housing resources.
5. A majority of housing resources should be targeted to serve income groups in greatest need.
6. Priority should be given to preserving the affordability of existing units.
7. Publicly assisted housing should remain affordable for at least 30 years.
8. The city can no longer rely solely on private sector production.
9. High volume housing production demands predictability of city resources.

RECOMMENDATIONS

The city must assume a new level of responsibility for finding solutions to the housing crisis. To keep the problem from getting worse, Los Angeles must increase current housing resources 300 percent from $90 million annually to $300 million. This can realistically be accomplished by expanding local funding allocations while aggressively mobilizing state, federal and private sector resources.

In addition to expanding public resources, the city needs to be more deliberate in its use of housing funds. As it addresses the housing problems of the future, Los Angeles must assume a new posture that is pro-active, not reactive, and which advances an entrepreneurial, innovative, coordinated and multifaceted program to ensure a decent, affordable home to all of the residents of the city.

The Blue Ribbon Committee makes the following specific recommendations for the first step in an evolving new response to the housing problem:

1. Housing Commission

The first recommendation addresses the critical missing piece in the city's housing delivery system: a coordinating unit that will bring order to what is now a complex and fragmented system. The Blue Ribbon Committee therefore recommends the formation of a Housing Commission to develop housing policy for the city, generate new housing resources and review housing planning and production.

2. New Resources for Affordable Housing

Cities across the nation are generating new ways to bring increased resources to their burgeoning housing and homeless problems. Los Angeles must constantly explore new ideas and expand on old ones. The

committee recommends development of the following resources immediately:

- Pursue lifting of restrictions on expenditure of Central Business District Redevelopment project revenues. Annual potential $50-100 million.
- Take a $100 million general obligation bond for housing to the voters.
- Establish a linkage program that would tie new commercial development to support for affordable housing. Annual potential $5 million to $15 million.
- Increase the document transfer tax on the sale of real estate to generate $8 million per year for a housing trust fund.
- Develop and expand non-monetary incentives including city owned land, density bonuses, tax exempt bond financing, fee waivers, and low income housing tax credits.
- Intensify lobbying efforts in Sacramento and Washington to expand state and federal housing support and to obtain a fair share of existing resources.

3. New Housing Programs

- Institute a deferred payment loan program to preserve those brick buildings whose 50,000 units are the most important component of the city's stock of affordable housing.
- Develop a mechanism to transfer ownership of slum properties to non-profit ownership if the landlords refuse to rectify health and safety violations after repeated citations.
- Tap private sector expertise and resources through creation of the Los Angeles Housing Partnership, a private, public, community partnership designed to fill critical gaps in the housing delivery system.
- Implement a strategy to preserve the affordability of buildings that are losing federal subsidies.
- Develop a purchase and rehabilitation program to encourage the private sector to buy existing affordable housing, rehabilitate it and guarantee long-term affordability.

4. New City Policy

- Extend the Earthquake Hazard Reduction Ordinance until a loan program can be put into place to rehabilitate brick apartment buildings and preserve their long-term affordability.
- Review all city policy for adverse impacts on housing and mitigate those effects.
- Give lowest priority in the issuing of building permits to projects that will result in a net reduction of affordable housing units.

5. Changes needed in City Programs

- Emphasize long-term project affordability over leveraging city funds.
- Target resources to lowest income households by limiting single family rehabilitation loans to households at 50 percent or less of median income and by eliminating shallow subsidies for multi-family rehabilitation.
- Review threshold for exemption from prevailing wage requirements.
- Restrict rent pass-throughs in housing rehabilitation projects using city loans.
- The city must have a rental housing policy that is fair to the tenant and owner.

4. THE HOUSING PROBLEM

INTRODUCTION

Our housing problems are neither easily identified nor readily apparent to the general public. Yet they are as crucial as the gridlock, sewer overloads and air pollution that confront our policy makers. When a family can no longer afford an apartment and doubles up with another family, no immediate change is noticed in the urban fabric. Nor do we see a change in the overall quality of life when 60 percent of a worker's paycheck must be spent on housing his or her family. Nevertheless, overcrowding and the extreme disparity between rents and incomes will have a profound effect on the kind of city Los Angeles will be in the future.

The invisible character of a housing crisis makes it much harder for policy makers to anticipate and address. The issue is not that we cannot solve our housing problems; the critical difficulty is the lack of public recognition of the problem. Thus, visibility of the housing crisis and public understanding of the importance of addressing it are essential first steps toward rehousing Los Angeles.

SUMMARY OF STATISTICAL REPORT ON THE HOUSING PROBLEM

(Drawn from *Housing the Future: a Briefing Book for the Blue Ribbon Committee for Affordable Housing*, and the *Rent Stabilization Review, 1988* .)

Los Angeles has approximately 1.2 million housing units, 40 percent owner occupied, and 60 percent renter occupied.

The net growth in the supply is 14,000 units per year, over 90 percent rentals. The net growth in population is 25,000 *households* (80,000 persons+/-). The gap between supply and demand grows by 11,000 units each year. Half of the demand comes from expansion of the existing population, and half is attributed to immigration from outside of the city.

Constraints that slow the expansion of the housing supply include scarcity of developable land, increasing sophistication and effectiveness of neighborhood resistance to growth, and land use mandates (AB 283, Proposition U) that are downzoning Los Angeles neighborhoods 20 to 40 percent.

Loss of Affordable Units

The effect on lower income groups of the imbalance between supply and demand is exacerbated by a rapid loss of affordable units. Of the 4,000 units demolished annually, 60 percent are rentals, and 80 percent of the rentals are affordable to very low income households. The market cannot replace these lost apartments with units of comparable affordability. Rents of demolished units average $350; rents of newly built units average over $900.

In addition, the city's over 19,000 federally subsidized units are subject to a phased in expiration of rent restrictions; rents of many of these units will rise from $250 and less to market rates over the next several years.

Nearly 50,000 apartment units, over 80 percent of them affordable to low income households, are in buildings of unreinforced masonry construction and must be reinforced to withstand earthquakes or be demolished. The city's Earthquake Hazard Reduction Ordinance requires reinforcement or demolition of these brick buildings in 1989. Renovation costs normally exceed $10,000 per unit and result in rent increases in excess of $150 per month, or 40 percent on average. Reinforcement costs will force many families to leave. When apartments are vacated, rent controls may be lifted and, in many cases, rents in buildings that are now affordable will rise to the high end of the market—out of reach to low wage workers and individuals on fixed incomes. Brick buildings are the city's largest single source of housing affordable to very low income families.

Effects of Labor Market Changes

Changes in the labor market show significant trends toward a two tiered system with more low wage service and manufacturing jobs, and more high wage jobs, but fewer middle wage workers. In our tight housing market this has put more high income workers into the system with the capacity to bid up rents on apartments historically rented by lower wage workers. At the same time we have a growing pool of low wage workers needing low cost housing. The result is that rental units are passing from lower wage workers to high wage workers. Low wage workers are beginning to occupy the brick apartments and SRO (single room occupancy) hotels previously housing those on the next lower rung of the economic ladder, including senior citizens and other fixed income households. Previous residents of inner city SROs and apartments are becoming homeless.

Adjustments to a Tightening Housing Market

While homelessness has become visible for the first time, for the most part residents at the lower tier of the housing market have been making lifestyle adjustments that have kept the housing problem more or less hidden from view. These lifestyle adjustments or coping mechanisms include doubling up, living in illegal units, families occupying SRO hotels, endurance of substandard slum conditions and payment of large proportions of income for housing.

The tightening of the housing market puts many questions before us: How much more room is there in the Los Angeles' housing system for the city's poor to cope with the crisis through lifestyle adjustments? What are the consequences of coping mechanisms for the long-term health of the city and its citizens? And what will be the effect of sudden market shocks on a housing system that has exhausted its potential to adjust? Such shocks might include loss of brick apartments, a recession, or loss of federally subsidized units.

Quantifying the Housing Problem

The following are the statistical measures of symptoms of the city's housing problem. The statistics are primarily based on the 1980 census, so the data are over eight years old and gives a conservative portrayal of our housing problems.

Homeownership

The 1988 median Los Angeles area home price is $191,166. The minimum income required to support that purchase is $59,297, assuming a $38,000 cash down payment. The California Association of Realtors estimates that only 17 percent of area households would qualify to purchase the average home. Most families that do not now have equity in a home are locked out of ownership.

Overcrowding

148,000 units were overcrowded in 1980, representing 18 percent of all rental units. 89,000 units, or 10 percent of the rental stock was extremely overcrowded—this represents a 250 percent increase over 1970. Every year 6,500 additional families are forced into overcrowded conditions.

Illegal Units

According to a Los Angeles Times survey 40,000 families live in garages.

Rent Levels

Average rents increased 110 percent in 8 years; from $250 in 1980, to $525 in 1988. This is 70 percent of the $750 monthly salary of a minimum wage worker.

Rent Burden

In 1988, 150,000 households pay over 50 percent of their income for housing. Thus, over 20 percent of Los Angeles residents are severely rent burdened, and could be forced to leave their homes if faced with a job loss or major medical expense. This makes the Los Angeles housing system very fragile in the event of even a mild recession. Every year an estimated additional 6,700 families shoulder an extreme rent burden. Families and seniors earning less than $10,000 per year pay an average of 68 percent of their incomes for housing (minimum wage is $9,000 per year). Households earn- ing less than $20,000 per year pay an average of 40 percent of income for rent.

Homelessness

35,000 persons in Los Angeles are homeless; 30 percent are families with children—the fastest growing component.

1988 Income Limits and Rent Levels for Housing Assistance

1988 Affordable Rent Definitions

		Income Category			
Number of Bedrooms	Family Size	Very Low* 50%	Low* 60%	Low** 80%	Moderate** 120%
	Elderly	$310	$377	$415	$622
1	1-2	$353	$429	$444	$666
2	2-4	$396	$482	$532	$798
3	4-6	$478	$581	$629	$944
4	6-8	$549	$668	$703	$1,055

Source: 1988 Income Limits and Corresponding Maximum Rent Levels, Community Redevelopment Agency
*Tax Credit Rents
**CRA Rents (HUD rents 20% higher)

Renter Incomes

Income Category	% of Renter Households*
Very Low	29.9%
Low	16.5%
Moderate	25.5%
Upper	28.1%

Source: 1988 Rent Stabilization Review, unpublished tabulations.
*Applies only to units covered by Rent Stabilization Ordinance

1988 Income Limits for Housing Assistance*

		Income by Family Size				
Description	% of Median	1	2	3	4	5
Very Low	50%	$13,400	$15,300	$17,250	$19,150	$20,700
Low*	60%	$16,080	$18,360	$20,700	$22,980	$24,840
Low	80%	$19,900	$22,700	$25,550	$28,400	$30,200
Moderate	100%	$24,375	$28,375	$31,938	$35,500	$37,750
Moderate	120%	$29,850	$34,050	$38,326	$42,600	$45,300

Source: 1988 Income Limits and Correspondng Maximum Rent Levels, Community Redevelopment Agency
*For tax credits

5. KEY FINDINGS OF THE BLUE RIBBON COMMITTEE

KEY FINDINGS

The Blue Ribbon Committee makes nine key findings in its study of the housing crisis to be used by the Mayor and City Council in evaluating the recommendations made in this document as well as in formulating future housing policy.

1. Fast Changing Circumstances Are Propelling Los Angeles Into a Housing Crisis that is Degrading the Quality of the City.

The housing crisis is the result of an explosion in housing costs attributable to the convergence over the past few years of five variables:

- a shortage of land as the city becomes built out,
- public resistance to new development resulting in down-zoning and growth restrictions,
- a labor market trend from middle income to low wage jobs,
- a population expansion in response to a strong economy, and
- the federal government's reduction of its historic role in providing a decent affordable home for every American.

These factors combine to create a crisis of affordability unprecedented in Los Angeles. This crisis is the city's problem and the city must take responsibility for finding a solution.

The housing problem hits nearly every social class and every sector of the city. The wrenching reality of homelessness destroys individuals and families. The increasing impossibility of homeownership for working class families denies most of Los Angeles this basic American dream and the pride in community that goes along with it. And soaring housing costs are stealing hope and opportunity from the low wage workers who are the foundation of our economy.

2. The City Must Assume Principal Responsibility for Solving the Housing Problem by Marshalling Federal, State Local and Private Resources.

No informed observer predicts resumption of significant state or federal housing activity in the next four or even eight years. This fact, and the fast changing circumstances that are advancing housing into crisis, require the Mayor and City Council to address a fundamental policy question they did not need to ask until now: will the City of Los Angeles assume the principal responsibility for marshalling resources to solve the housing problem? This question never had to be asked before because housing need was never as acute as it is today, and because state, federal and more recently, redevelopment resources, were sufficient to meet the city's critical housing needs. The question points to a new role for the city as the entity with primary responsibility for addressing the housing problem.

The issue of local responsibility for housing is being discussed by leaders in major cities across the country. In response, American cities are seeing sudden growth in local innovations to support affordable housing production. San Antonio, Cleveland, Boston, Denver, San Francisco, Minneapolis,

New York, Seattle and many other cities are generating housing funds locally to support new housing initiatives.

The Blue Ribbon Committee regards these efforts with enthusiasm because they herald an era in which local government is assuming new responsibilities for funding affordable housing with a vigor and creativity that is impossible on the federal level. The Blue Ribbon Committee recommendations flow from an affirmative answer to the question of local responsibility. The recommendations are a first step toward providing the means by which Los Angeles can attack its housing problems.

3. The City Must Triple Housing Resources to Keep the Problem from Getting Worse.

The city's current housing budget, approximately $90 million per year, is not sufficient to slow expansion of the housing crisis. In total, over 200,000 households in Los Angeles have severe housing problems. But the emergency before the city is the growth of the housing problem. Every year 6,700 *additional* households experience extreme rent burden. Every year 6,500 *additional* households become severely overcrowded. The committee estimates that in order to prevent the present crisis from deepening the city must preserve or produce at least 10,000 affordable units each year at a total cost of about $300 million. This level of effort requires an additional $210 million annually in resources in addition to the current budget—an increase of 300 percent in city housing support.

4. A Strategic Plan for Housing Production is Necessary to Ensure Effective Coordination and Utilization of Housing Resources.

The city is hampered in its efforts to respond to the escalating housing crisis by a fragmented housing system lacking coherent policy guidance. The city benefits from having productive housing agencies, but they are given infrequent and sometimes contradictory guidelines. It is critical that the city have a plan to act as the road map for an expanded housing effort. A plan would guide programming, establish budget priorities and provide a basis to evaluate all public policy that affects the city's housing system.

Because the city does not have a comprehensive city-wide housing plan, there currently is no rational way to link needs to resources. The housing production goals and budget priorities need a city-wide coordinated perspective. The size and complexity of the housing problem demand an affirmative relationship between needs, resource allocation, program development and evaluation.

5. The City Should Target the Majority of Housing Expenditure to Households in Greatest Need.

Housing is a problem for many social and economic groups, but it is a crisis for the $5,000 to $25,000 annual income renter. The crushing consequences of extreme rent burden, slum conditions and extreme overcrowding are problems of low wage renters and their families. Potential social instability is most apt to grow out of the increasing economic isolation of the low income renter. While it is easier from a program and policy perspective to address the less urgent hous-

ing issues of the middle class renter and would-be home buyer, conscience, limited resources and the health of the city demand that priorities be directed to the low wage worker and fixed income household.

Targeting

The majority of public subsidy should be targeted to the needs of very low income families and seniors. Moderate and higher income housing needs can be met by private industry with or without subsidy assistance such as bond financing, density bonuses, fee reductions and expediting, and should concentrate on home ownership.

Specify Beneficiaries

All housing policies and programs should specify in dollar terms as well as percentages of median the intended project rent level and the income group and family size of targeted beneficiaries.

6. The City Should Give Priority to Preservation of Existing Units.

In a market with rapidly rising rents, where housing units are filtering up to successively higher socio-economic groups, it is as important to stabilize affordability as it is to create new units. An existing unit preserved with long-term affordability has a social value nearly equal to a newly produced low rent unit. Rehabilitation should always be considered if it is less expensive to rehabilitate a unit and make it affordable for 30 years to a household earning \$5,000 - \$25,000 than to construct a new unit of similar affordability. Based on program costs and speed of development, we must look to the existing stock as our primary affordable housing resource.

However, because the Los Angeles housing market has a mismatch between renter household size and rental unit size, new construction programs should be developed for the production of affordable large family units.

7. Housing Programs Should Guarantee Long-Term Affordability.

The critical manifestation of the Los Angeles housing crisis is affordability. Most components of the crisis can be traced back to soaring costs. Families overcrowd and move into garages because they cannot afford to live one household to the unit. Unsafe and unsanitary apartments can be rented because their tenants cannot afford decent housing. Homelessness, while also tied to the lack of mental health facilities and other services, can in large measure be described as a direct outgrowth of our vanishing affordable housing stock. All city housing policy must give affordable housing highest priority. Therefore, instead of requiring affordable rents for only five or ten years, all city housing programs requiring significant public resources should make long-term affordability, defined as 30 or more years, their primary objective.

8. Housing Production Requires Predictability

A high volume housing production system demands predictability of city resources. With a development cycle of two years or more, a city program that turns the spigot on and off will never cultivate a dependable group of affordable housing developers and will never evolve into a rational and effective approach to solving our housing problems. City housing programs should be dependable, stable catalysts to leverage re-

sources that developers can rely on as they acquire land and package deals.

9. The City Can No Longer Rely Solely on Private Sector Production.

Private sector production would have to double in the current adverse development climate to meet the annual *growth* in housing demand. Production would have to triple for ten years to *relieve existing* overcrowding and slum conditions. But even with a 300 percent increase in production, the gap between what low income renters can afford to pay ($350 per month) and the cost of producing a unit in the current market ($900 per month) is so great that it is unlikely that units produced for the upper end of the market will trickle down to the economic strata of critical need. Moreover, it is unlikely that the demand for $900+ per month housing units is sufficient to inspire the private sector to triple production. Resolution of the housing crisis must therefore include significant public expenditure to augment private market activity.

6. RECOMMENDATIONS

INTRODUCTION

The housing problem is one of the city's most complex issues. Its causes are multiple and often difficult to identify, therefore its solutions must be varied. Different programs are necessary to meet the needs of the senior citizen, the low wage worker and the would-be home buyer. Housing programs must also be flexible to respond to a changing market or state and federal housing programs. The city cannot solve the housing problem by itself; resolution of the housing crisis requires the investment of significant state federal and private as well as local resources. Nor can the city solve its housing problem with one simple approach. What is needed is a complex array of resources, programs and policies implemented through a coordinated effort. The following recommendations therefore address the housing problem from several directions. They include a housing commission to bring focus to the city's housing system, new resources for affordable housing, new housing programs, new city policy and changes needed in the city's existing programs.

RECOMMENDATION 1:
LOS ANGELES HOUSING COMMISSION

NEED FOR A HOUSING COMMISSION

The most critical missing piece in the city's housing delivery system is a coordinating unit that will bring order to what is now a complex and fragmented effort. Without coordination and drive, new and existing housing resources can not be effectively utilized. The Blue Ribbon Committee therefore recommends the formation of a Housing Commission to develop housing policy for the city, generate new housing resources and review housing planning and production. The commission would also serve as a much needed public forum for the discussion of housing problems and solutions. The commission would be the link between needs assessment, planning, budgeting, programming and production.

The Blue Ribbon Committee found that responsibility for housing policy, programming, and budgeting in Los Angeles is divided between 11 separate city government entities; no one agency has overall responsibility. While the Community Redevelopment Agency (CRA), Community Development Department (CDD) and other agencies have good production records, they respond to need as seen by those agencies; there is no formal relationship between those programs and the city-wide housing problem. There is no formal process to evaluate performance. Moreover, there is no one agency to call to inquire about the housing problem. The resulting confusion has made effective response to the growing housing crisis impossible.

In order to respond forcefully and consistently to the housing crisis, the city needs a written housing policy that establishes an efficient system to determine housing needs and link those needs to programming and budgeting. Housing departments need production goals. And the city needs a formal process through which it can evaluate the performance of its housing agencies. A Housing Commission would have these responsibilities.

HOUSING COMMISSION STRUCTURE

The committee recommends that the Housing Commission be comprised of seven appointed members and four ex officio members staffed by an executive director and a small number of housing professionals and support staff. Commission appointments would be made by the Mayor and approved by the City Council. The chief executives of the Community Development Department, the Community Redevelopment Agency, the Housing Authority and the Planning Department would be ex officio non-voting members of the Commission.

HOUSING COMMISSION RESPONSIBILITIES

The Housing Commission would have no direct project implementation responsibility. It would, however, work closely and cooperatively with the Community Development Department, the Community Redevelopment Agency, the Housing Authority and the Planning Department in program planning, budgeting and implementation.

Needs Assessment and Planning

The commission's first responsibility would be to implement the recommendations of the Blue Ribbon Committee and to develop a housing plan based on the principles and concepts set forth by this report.

The commission would work with planning and housing departments to generate and update a housing data base to monitor changes in conditions affecting the housing supply. Using this data base, the commission would develop and update a housing plan. Within the framework of that plan the commission would produce an annual housing assessment to determine housing need, mobilize resources and evaluate the success of housing agencies in meeting that need. The city's housing plan would forge the critical links now missing between problem, resources, budget and production.

Housing Budget Review and Recommendations

The Housing Commission would review the budgets of housing production agencies and make recommendations to the Mayor and Council. The commission's review would evaluate budgets for consistency with the city's housing policy.

New Resource and Program Development

The Housing Commission would work with the Community Development Department, the Community Redevelopment Agency, the Housing Authority, the Planning Department, the Department of Building and Safety and the City Attorney to develop new housing resources and new housing programs.

Program Evaluation

The Housing Commission would annually evaluate the effectiveness of the city's housing programs in meeting established housing production goals.

Public/Private Partnerships

The commission would encourage new private/public partnerships to expand the role of the private sector in affordable housing production.

Assessment of Public Policy Housing Impacts

The Housing Commission would evaluate city public policy decisions for their impact on housing and recommend modification of policies adversely affecting the housing supply.

Lobbying

The commission would work with the Chief Legislative Analyst to increase lobbying for expanded state and federal housing support and a fair share of existing resources. (See Appendix pages 35-38)

RECOMMENDATION 2:
NEW RESOURCES FOR AFFORDABLE HOUSING

NEW SOURCES OF HOUSING FUNDING

Many major American cities are responding to the loss of federal housing support by creating housing trust funds to direct locally generated resources to the preservation and development of affordable housing. Housing trust funds are most effective when they are funded by a dependable annual funding base that is isolated from the general city budgeting process. The Blue Ribbon Committee concluded that it was necessary to develop new sources of housing funding that would capitalize on the burgeoning economy rather than place additional demands on severely restricted government funding bases.

The committee reviewed over a dozen resource mechanisms that are being tried in other cities and states ranging from interest on escrow accounts through taxes on oil production to annual general fund allocations. Many of these revenue sources have potential in Los Angeles, and should be explored as part of an active ongoing effort to replace lost federal housing revenues.

The Blue Ribbon Committee determined that city housing resources must be increased *300 percent* to stop the annual increase in the housing problem. The committee recommends a strategy for accomplishing this that includes expansion of local funding, provision of development incentives and an active city role in an effort to expand state and federal housing support.

The Blue Ribbon Committee recommends the four sources of new revenues which, in the committee's opinion, have the greatest potential to support an effective comprehensive city housing effort.

1. Linkage Program

Annual Potential: $5 - $15 million

A linkage program attaches an impact fee or exaction to the commercial real estate development process. It generally affects a particular type of development activity, e.g., office and commercial growth, or condominium and cooperative conversion. The committee recommends that the city establish a $1 or higher fee per square foot of high rise office and commercial development exceeding a minimum threshold.

The theory behind a linkage program is that the construction of new office or commercial space generates a demand for housing as new workers are brought into the city. Linkage programs require that developers of office and commercial space either construct affordable housing or contribute a fee in lieu of direct development. This is generally a condition of project approval thus "linking" commercial development to affordable housing.

Linkage programs now exist in eight cities including Boston, Jersey City, Cherry Hill (NJ), Miami, Palo Alto, Santa Monica, Seattle and San Francisco. The linkage fee assessed ranges from $1.50 per square foot to $15.30 per square foot. (See Appendix pages 43-45)

2. Lift Spending Cap on Community Redevelopment Agency Central Business District (CRA/CBD) Project

Annual Potential: $50 million - $100 million

The Blue Ribbon Committee supports Mayor Bradley's proposal that court imposed spending limits on the CRA's Central Business District project be lifted from the current level of $750 million to generate $2.125 billion for affordable housing. This represents by far the greatest resource base for affordable housing production. (See Appendix page 46)

3. Document Transfer Tax

Annual Potential: $8 million plus

The document transfer tax is applied to every property deed when recorded as well as other documents related to the ownership or transfer of real estate. Los Angeles County collects the tax and allocates 50 percent of the revenues collected from real estate transfers within city boundaries to the city. If the city's current share of the tax is doubled it would generate an additional $8.5 million revenue which could be allocated to a housing fund. The tax increase may require a two-thirds vote. (See Appendix page 45)

4. General Obligation Bond

Lump Sum: $100 million

The Blue Ribbon Committee recommends that city immediately infuse $100 million into its housing programs through the sale of a $100 million general obligation bond. Such an effort could include the Mayor's proposal to fund seismic rehabilitation with such a bond. A two-thirds vote of the general electorate is necessary to approve the issue of a general obligation bond. (See Appendix page 46)

INCENTIVES FOR AFFORDABLE HOUSING DEVELOPMENT

The most effective way to fill the gap between housing need and available private sector resources is to establish an aggressive program of providing non-monetary incentives to private housing developers. The subcommittee recommends a housing incentives program valued at over $75 million annually that is generated by a package of city incentives to supplement the city's housing budget.

1. City Owned Land

Annual Potential: $3.3 million

The Blue Ribbon Committee believes that the city's surplus land should be priced to support affordable housing production and therefore recommends that the city annually dedicate a minimum of 25 lots (250,000 s.f.) of city owned land at cost to the development of affordable housing. While the use of this resource is an objective of the housing element, it has not been utilized extensively. The Blue Ribbon Committee also recommends that the city actively pursue acquisition of state owned surplus land within the city to be used in this program. (See Appendix page 41)

2. Density Bonus

Annual Potential: $4.6 million

The city should allow developers who agree to dedicate 20 percent of units in a completed project to very low income occupancy (50 percent or less of median income) to increase density 50 percent over maximum. (See Appendix page 41)

3. Tax Exempt Bond Financing

Annual Potential: $29.4 million

The Blue Ribbon Committee recommends that the city continue to provide tax exempt bond financing to reduce the mortgage interest rates for developers of affordable housing. This financing requires that 20 percent of units be affordable to households at 50 percent of median income or 40 percent be affordable to households at 60 percent of median. The remaining units have market rents. This incentive has the potential for producing a total of 2,500 units a year: 2,000 market rate units and 500 units affordable to households at 50 percent of median income. (See Appendix page 42)

4. Fee Waivers

Annual Potential: $12.4 million

The city should waive building and user fees in all projects with 20 percent or more dedicated units affordable to households earning 50 percent or less of county median income or 40 percent of units affordable to households at 60 percent of median. (See Appendix page 42)

5. Tax Credits

Annual Potential: $24.3 million

The Blue Ribbon Committee recommends that the city promote the use of federal and state housing tax credits to stimulate private investment in affordable housing. This incentive is generated through tax shelter syndication. The value of these credits increases with the proportion of low income units in the project making this is an excellent incentive for the production of very low income units. (See Appendix page 42)

6. Lobby for Fair Share

Los Angeles does not receive its fair share of state and federal housing resources. Expansion of city lobbying efforts in Sacramento and Washington would provide the city with additional housing funds. (See Appendix page 47)

NEW RESOURCES FOR AFFORDABLE HOUSING

Existing Funding	
1. CRA	$ 65.0 million
2. CDD	$ 25.0 million
New Funding	
1. Linkage Program	$ 15.0 million
2. Document Transfer Tax	$ 8.0 million
3 General Obligation Bond	$ 25.0 million
4. CRA Cap	$ 50.0 million
Incentives	
1. 25 city lots	$ 3.3 million
2. Density bonus	$ 4.6 million
3. Tax credit units	$ 24.3 million
4. Tax exempt bond financed units	$ 29.4 million
5. Fee waivers	$ 12.4 million
6. Lobbying	$ 38.0 million
Total	$ 300.0 million

RECOMMENDATION 3:
NEW HOUSING PROGRAMS

INTRODUCTION

The Blue Ribbon Committee recommends five housing programs designed to address special needs in the city, or to take advantage of untapped resources.

BRICK BUILDING PRESERVATION PROGRAM

Brick buildings are the single most important component of the city's affordable housing stock. They are in great danger of being demolished due to earthquake regulations and other factors and the Blue Ribbon Committee recommends immediate city action to address the problem. In order to preserve these buildings, the Blue Ribbon Committee recommends a 20-year, $15,000 per unit deferred payment loan with interest and principal forgiven after 20 years if affordability is extended an additional 15 years. Under this program no rehabilitation costs can be passed through to tenants and rent increases are regulated.

Most brick buildings are seismically unstable and must be reinforced or demolished in the near future. Reinforcement costs are about $10,000 to $15,000 per unit; if these costs are passed through to tenants, many will have to pay 60 percent or more of their incomes in rent or move out into slums or the street. The proposed program will upgrade brick buildings while preserving their affordability. (See Appendix pages 53-58)

SLUMLORD RECEIVERSHIP PROGRAM

The Blue Ribbon Committee recommends a program that transfers ownership of slum property to a non-profit development and management entity if owners do not comply with orders to bring them up to standards of habitability. The City Attorney would develop a mechanism for condemning slum property which does not comply after repeated citations for violations, and clearing title so that the ownership of the building could be transferred to a non-profit ownership and management entity. A slum repair trust fund could be established to provide financing for improvements. (See Appendix page 80)

LOS ANGELES HOUSING PARTNERSHIP

The Blue Ribbon Committee recommends the creation of a Los Angeles Housing Partnership (LAHP) to fill critical gaps in the housing delivery system for low income households in Los Angeles. Modeled after successful efforts in other parts of the country, LAHP would be an independent, non-profit organization comprised of representatives from the private, public and community sectors of Los Angeles. It would serve as a one-stop center at which community-based organizations could obtain development training, technical assistance, land option funds, pre-development loans and, eventually, long-term development financing. The first year's production goal would be 1,000 housing units either newly constructed, purchased or rehabilitated.

One of LAHP's most important tasks would be to work with lenders, equity syndicators and public subsidy sources to synchronize underwriting standards and processing procedures to simplify the development process. The committee has identified a

number of sources of funds for start-up and has proposed sources of new housing resources that would support LAHP activities over time.

Acquisition funds would come from a mixture of private lender commitments, insurance company investments and foundation grants. Predevelopment loan funds would come both from private foundations and from the California Department of Housing and Community Development. Both acquisition and loan funds would repaid from project financing on approximately 18 month cycles.

The committee proposes that LAHP have an appropriate initial allocation from the Community Redevelopment Agency for a subsidy fund. Eventually subsidy funds could flow to LAHP from a dedicated source such as a housing linkage fee or other committee proposals for new housing resources. The partnership would use equity funds from tax credit syndicators and would seek long range financing from lenders who are willing to coordinate their lending procedures with equity investment sources and public subsidy requirements. (See Appendix pages 59-63)

PRESERVE AFFORDABILITY OF BUILDINGS THAT ARE LOSING FEDERAL SUBSIDIES

The Blue Ribbon Committee recommends that the city give high priority to preserving the affordability of all federally subsidized housing in Los Angeles. In order to ensure that the affordability of this housing can be preserved, the committee recommends a comprehensive five-part strategy including monitoring, regulation, financial restructuring/buy-out, a housing preservation entity, and expanded state and federal assistance.

Private sector developers built over 19,000 low income units in Los Angeles over the last 20 years using federal mortgage and rent assistance programs. The federal government restricted affordability of this housing for 15 to 20 years depending on the program used. Those affordability restrictions are beginning to expire, making it possible for the building owners to dramatically increase profits by raising rents to market levels, displacing tenants and reducing the supply of low rent housing.

The proposed five part preservation strategy spreads the burden of preserving the affordability of this housing among tenants, owners and government. The essential feature of the strategy is a financial restructure/work-out program. Under the committee's preferred alternative, the Housing Accruing Loan Opportunity Program or HALO, the city would guarantee secondary deferred payment financing that would provide building owners with a cash infusion sufficient to cause them to maintain their housing as affordable without causing an increase in the rents. The Blue Ribbon Committee believes that the HALO program is a good use of the city's debt management capacity and that the city should find a way to address any impacts of the HALO program on this capacity.

A second alternative, called the Affordability Preservation Assistance Program (APA), increases rents modestly, discounts market potential realized by owners, and extends government housing subsidies. Under certain circumstances, public sector deferred payment secondary financing would be provided to assure economic viability of the project. The APA program requires a large annual subsidy and assumes

a significant role by the federal government. (See Appendix pages 65-70)

PURCHASE AND REHABILITATION PROGRAM

The city should cease multi-family rehabilitation loan efforts that push up rents and displace tenants. The Blue Ribbon Committee recommends that these programs be replaced by loan programs that provide deeper subsidies which carry long-term affordable rent regulatory agreements. These programs must be designed to preserve affordability as well as improve the physical housing stock. The programs should encourage both existing and new owners to purchase and rehabilitate rental housing and maintain low rents. (See Appendix page 80)

RECOMMENDATION 4:
NEW CITY POLICY

INTRODUCTION

The Blue Ribbon Committee identified three new policies that should be codified through legislation to ensure that the affordable housing supply is protected when the city makes decisions about land use.

EXTENSION OF EARTHQUAKE ORDINANCE

The current deadlines of the Earthquake Hazard Reduction Ordinance (EHRO) require that major compliance activity begin early in 1989. In the frenzy to meet the time constraints, several problems have surfaced, including a shortage of qualified contractors. This shortage has raised prices which will then be passed through to tenants. Furthermore, Building and Safety may not be able to handle the volume of requests for permits in a short time and owners will need time to apply for and received proposed public assistance that will preserve affordability of units.

Therefore, implementation of the EHRO should be phased in over a four year period beginning January 1, 1989, with one-quarter of affected units being processed each year according to a scheduling process that requires the most dangerous buildings to be repaired first. (See Appendix page 57)

BUILDING PERMIT ALLOCATION

Every year construction projects in Los Angeles demolish thousands of affordable units that are not replaced. The Blue Ribbon Committee believes that it is essential to encourage developers to replace affordable housing units. The city's evolving Building Permit Allocation ordinance presents an excellent opportunity for regulating the disappearance of the city's stock of low cost housing. Under the ordinance, a building permit allocation system is being developed to restrict construction until major improvements are made in the city's sewer capacity. The Blue Ribbon Committee finds that affordable housing must be a major consideration in the sewer ordinance as well as other public policy and therefore recommends that under the Building Permit Allocation Ordinance lowest priority for the issuing of building permits should be given to projects that will result in a net reduction of affordable housing units. (See Appendix page 77)

HOUSING IMPACT REVIEW

Restrictions on growth and development are having severe negative impacts on the supply of affordable housing, and these impacts are not adequately reviewed in the public policy arena. The Blue Ribbon Committee recommends that the city adopt a policy that housing is a priority consideration in all land use, transportation and discretionary decisions. In all such decisions the Mayor and City Council would require staff to evaluate the effects on affordable housing provision and to recommend mitigation of adverse effects. Review would not be on a project by project basis but apply only to broad policy initiatives. Examples of such policy decisions include new earthquake laws, down-zoning, interim control ordinances, building moratoria and development fees.

Housing is an essential urban system that requires the same care, attention, and investment as do our roads, sewers, and public transit. Public policy directed at density, traffic, sewers, economic development, education and virtually every issue in the public arena impact in some way on the availability and affordability of housing. However, there is no process for evaluating and mitigating these impacts. Serious efforts must be taken to mitigate any reduction of the affordable housing stock caused by public policy or public action. (See Appendix page 79)

RECOMMENDATION 5:
CHANGES NEEDED IN CITY PROGRAMS

INTRODUCTION

The Blue Ribbon Committee reviewed existing programs, and made the following recommendations to improve cost efficiency, targeting and overall effectiveness.

EMPHASIZE LONG-TERM AFFORDABILITY OVER LEVERAGING

In city assisted housing developments there is a clear trade off between long-term affordability and the city's recovery of its subsidy. Unfortunately, the only way to achieve repayment of subsidies is to build in rent increases and/or expiration of rent regulatory agreements. When programs stress recycling of funds, tenants are displaced, rents go up, and overall affordability of the housing supply is eroded. Overall affordability of the housing supply must be the primary objective of city housing programs, and fund recycling and leveraging must be secondary objectives. Affordability should be assured for at least 30 years. (See Appendix page 80)

PREVAILING WAGE REQUIREMENTS

The Community Redevelopment Agency presently exempts affordable housing construction projects of $250,000 or under from prevailing wage requirements. The Blue Ribbon Committee recommends that the Housing Commission review this threshold from time to time and make recommendations. (See Appendix page 58)

TARGET RESOURCES

1. Reduce single family rehabilitation loans.

Significant scarce city housing resources are allocated to single family rehabilitation when there is a greater need to preserve multi-family rental housing. Single family rehabilitation programs should be limited to programs providing repairs to households of the elderly or of families at 50 percent or less of median income. (See Appendix page 79)

2. Eliminate shallow subsidies.

Current Community Development Department multi-family rehabilitation programs offer shallow subsidies without rent restrictions. These programs improve properties but rehabilitation results in higher rents and in the displacement of one-third of the tenants. These programs should be replaced by loan programs that provide deeper subsidies and guarantee long-term affordability. (See Appendix page 80)

RENT STABILIZATION

1. Assure fairness in rental housing policy.

The city must have a rental housing policy that is fair to the tenant and the owner. Rental increases must be balanced between affordability to the renter and the interests of the owner. Capital improvements pass-throughs should be tied to the actual cost of improvements. (See Appendix page 79)

2. Restrict rent pass-throughs in projects using city funds.

The Blue Ribbon Committee recommends that the city restrict rent pass-throughs in rehabilitation projects using the city's low interest rehabilitation loan funds. All loans should be assumable. Owners should be permitted to pass through only the actual costs of principal and interest when incurred. In some cases the city makes low interest rehabilitation loans to property owners and allows them to pass the improvement costs on to tenant rents regardless of the actual cost of repaying the loans. The resulting rent increases are as high as $160 per $10,000 loaned, a dramatic increase for low income families and seniors. In one program, 30 percent displacement was reported. (See Appendix page 80)

7. CONCLUSION

HOUSING THE FUTURE

Unprecedented real estate market conditions, massive federal cutbacks and a decrease in real wages for low income workers have combined to catapult Los Angeles into a housing crisis far worse than ever before experienced by the city.

While the crisis demands swift and significant response from the City of Los Angeles, resolution of the problem must involve the private sector and state and federal governments.

The Blue Ribbon Committee presents its recommendations as a staging ground for a renewed assault on one of the city's most difficult problems. The proposals presented here contain both recommendations for immediate action and suggestions requiring further development. The city should consider this report the beginning of a new era in which it is the city's responsibility to marshal federal, state, local and private resources to produce and preserve affordable housing for the people of Los Angeles.

Appendix

Subcommittee Reports

1. Recommendation of the Housing Commission Subcommittee
2. Recommendations of the Subcommittee on New Development Concepts
3. Recommendations of the Subcommittee on Brick Buildings
4. Recommendations of the Subcommittee on Partnerships
5. Recommendations of the Subcommittee on Expiring Use Restrictions
6. Recommendations of the Subcommittee on Preservation

1. RECOMMENDATION OF THE HOUSING COMMISSION SUBCOMMITTEE

LOS ANGELES HOUSING COMMISSION

The most critical missing piece in the city's housing delivery system is a coordinating unit that will bring order to what is now a complex and fragmented effort. Without coordination and drive, new and existing housing resources cannot be effectively utilized. The Blue Ribbon Committee therefore recommends the formation of a Housing Commission to develop housing policy for the city, generate new housing resources and review housing planning and production. The commission would also serve as a much needed public forum for the discussion of housing problems and solutions. The commission will be the link between needs assessment, planning, budgeting, programming and production.

SITUATION ANALYSIS

Origins of the City's Housing Institutions

The city's housing institutions evolved incrementally during an era when the federal government took primary responsibility for funding low income housing. The rules for responding to housing issues were dictated by state and federal programs and the city did a good job of responding to those programs. However, 15 years later the game has changed and new rules are needed. The state and federal governments have sharply reduced their role in housing low income families and seniors and the real estate market has exploded, pushing thousands of previously well housed Angelenos into untenable conditions of housing deprivation.

Disorganization of the Housing System

The city is unable to respond effectively to the growing housing crisis because its efforts are not focussed. The Blue Ribbon Committee found that responsibility for housing policy, programing, and budgeting in Los Angeles is not fixed in a single agency. Instead, no fewer than 11 separate city government entities perform these functions fairly independently. They include the Planning Department, the Chief Legislative Analyst, The Chief Administrative Officer, Department of Building and Safety, the Planning Department, the Housing Authority (HACLA), the Community Redevelopment Agency (CRA), the Community Development Department (CDD), the Mayor's office, the City Council's Grants, Housing and Community Development Committee and the City Attorney. While each entity has some responsibility, none has the general responsibility to pull everything together.

The resulting confusion has made effective response to the growing housing crisis impossible despite the strong production performance of CDD and the CRA. Aside from an out-dated Housing Element, the city has no city-wide housing policy document. There is no formalized process to monitor the housing system and determine needs and no formal linkage between housing needs and budgeting or programing. Housing departments have no performance goals. And there exists no formal process through which the city can evaluate the performance of its housing agencies.

While the Planning Department is officially responsible for housing planning through the Housing Element of the General Plan, it does not have an effective link to the design and monitoring of housing programs. In addition, like CDD and CRA, the Planning Department must respond to complex agendas with housing only one of many critical problems. And, unfortunately, the city's official planning document, the Housing Element, is out dated and irrelevant to the fast changing housing crisis at hand.

Coordination Proposals

The need for coordination of the city's housing policy and programs has come up periodically and several proposals are pending before the City Council. The Consolidation Study Group created by the City Council's Governmental Operations Committee has recommended the creation of a low income housing coordination committee and the development of a comprehensive city housing policy. In addition, there is a proposal before the Grants, Housing and Community Development Committee to establish a housing policy advisory committee.

NEED FOR A HOUSING COMMISSION

The future effectiveness of the city's principal implementation arms, the Community Development Department, the Community Redevelopment Agency and the Housing Authority depends on the creation of an institutional structure that can furnish the coordination and planning necessary to respond forcefully and consistently to the housing crisis. The city needs an entity that can produce and implement an efficient system to determine housing needs and link those needs to programming and budgeting. Housing departments need production goals. And the city needs a formal process through which it can evaluate the performance of its housing agencies. A Housing Commission would have these responsibilities.

HOUSING COMMISSION STRUCTURE

The committee recommends that the Housing Commission be comprised of seven appointed members and four ex officio members staffed by an executive director and a small staff of housing professionals and support staff. Commission appointments would be made by the Mayor and approved by City Council. The chief executives of the Community Development Department, the Community Redevelopment Agency, the Housing Authority and the Planning Department would be non-voting ex officio members of the commission.

HOUSING COMMISSION RESPONSIBILITIES

The Housing Commission would have no direct project implementation responsibilities. It would, however, establish a close ongoing relationship to program implementation by the CRA and CDD and the Housing Authority as well as to Building and Safety and the Planning Department. Its responsibilities would include the following:

1. Needs Assessment and Planning
2. Budget Review and Recommendations
3. New Resource Program Development
4. Program Evaluation
5. Public/Public Partnerships
6. Assessment of Public Policy Housing Impacts
7. Lobbying

1. Needs Assessment and Planning

The commission's first responsibility would be to develop a housing plan drawing from the principles and concepts set forth by this report.

Currently there exists no system for collecting data on the housing problem. Without rudimentary information, it is impossible to develop programs that will effectively attack the housing problem. Prior to development of the Blue Ribbon Committee's Briefing Book, the city had no statistical basis for determining, for example, whether to allocate scarce city housing funds to single family home rehabilitation, or to new construction of apartments.

The commission would work with planning and housing departments to generate and update a housing data base to monitor changes in conditions affecting the housing supply. Using this data base, the commission would develop and update a housing plan. Within the framework of that plan the commission would produce an annual housing assessment to determine housing need, mobilize resources and evaluate the success of housing agencies in meeting that need. The city's housing plan would forge the critical links now missing between problem, resources, budget and production.

2. Housing Budget Review and Recommendations

The Housing Commission would review the budgets of housing production agencies and make recommendations to the Mayor and City Council. The commission's review would evaluate budgets for consistency with the city housing policy.

3. New Resource and Program Development

New Resources

The Housing Commission would work closely with CDD, CRA and the Housing Authority to expand the resources that can be brought to bear on the housing crisis. The commission would assist the housing agencies to implement new programs recommended by the Blue Ribbon Commission such as a commercial development exaction program, and expansion of the city's tax exempt financing program. The commission would constantly explore new ways to support the preservation and development of affordable housing including incentive programs such as density bonuses, transfer of development rights and use of city owned land for development.

Program Development

The Housing Commission would work with CDD, CRA, the Housing Authority and other city departments to develop new programs that respond to housing need and financial opportunities. For example, where the Blue Ribbon Committee recommends development of a housing preservation strategy to stop the loss of affordable housing as federal use restrictions expire the Housing Commission would work with the existing housing agencies to identify who should be responsible for developing an effective preservation program. As another example, the commission might work with Building and Safety to expedite affordable housing projects.

4. Program Evaluation

The Blue Ribbon Committee recommends that the city's housing efforts be evaluated annually to determine their success in meeting housing goals set by a housing

plan. CDD and CRA annually produce about 2,500 housing units; the city needs specific information about these units such as the rent levels, income groups benefitted, and numbers of units with three and four bedrooms. The amount of unmet need should also be addressed. At the current time the city's housing production agencies have neither specific housing production goals nor beneficiary objectives. Without goals, there exists no standard against which to measure performance. Evaluation data will provide the basis for more effective allocation of housing dollars by monitoring the connection between housing need and housing production.

5. Public/Private Partnerships

The commission would encourage new private/public partnerships to expand the role of the private sector in affordable housing production.

6. Assessment of Public Policy Housing Impacts

Every year dozens of public policy and program decisions are made which have a significant impact on housing availability and affordability. Examples of such policy decisions include new earthquake laws, downzoning, interim control ordinances, building moratoria and development fees. However, there is no city housing institution that can assesses those impacts. The Blue Ribbon Committee recommends that the Housing Commission monitor public policy and play an active role in modifying policies that would exacerbate the housing problem.

7. Lobbying

Mitigation of our housing problems requires a level of resource allocation that exceeds the capacity of the city. However, the city's record in cultivating state and federal resources is not impressive. For example, California is 49th of the 50 states in per capita HUD housing assistance, Los Angeles' housing authority receives one-fourth of HUD's national average per unit public housing modernization funding, and the city has been totally bypassed by the valuable Section 8 Moderate Rehabilitation program (zero units out of 20,000 since 1984).

Furthermore, the state's record in housing expenditure is also poor. California spends only 64 cents per capita on annual housing assistance while Massachusetts spends $17.80. One reason for this is that the city's lobbyists have general purpose responsibilities and are not able to concentrate on housing support. The Blue Ribbon Committee recommends that the Housing Commission work with the Legislative Analyst to increase lobbying for expanded state and federal housing support and a fair share of existing resources.

2. RECOMMENDATIONS OF THE SUBCOMMITTEE ON NEW DEVELOPMENT CONCEPTS

STATEMENT OF PURPOSE

The purpose of the New Development Concepts Subcommittee is to estimate the magnitude of housing need and to recommend public and private approaches and resources for meeting that need. This report recommends that the city increase its housing resources 300 percent through a combination of non-monetary incentives, housing subsidies using new city resources and increased state and federal funding. Specifically, the subcommittee recommends the following:

Non-monetary Incentives:

- City owned land
- Housing bonus program
- Tax credits
- Tax exempt financing
- Fee waivers

New Housing Resources

- Linkage program
- Documentary transfer tax
- General obligation bond
- Lifting CRA cap

State and Federal Funding:

- State program assistance
- Single purpose housing lobby groups
- HUD Section 8 Moderate Rehabilitation Certificates

HOUSING NEED AND CURRENT RESOURCES

Key Conclusion: Annual resources must be increased 300 percent to stabilize the city's housing system.

RESOURCE NEEDS

The subcommittee measured housing need in terms of the resources required to meet that need. It considered need from two perspectives: 1) the cost of maintaining status quo and 2) the cost of solving the entire housing problem. The subcommittee assumed that the cost of meeting housing needs to be $20,000 to $40,000 per household experiencing housing deprivation. Based on the subcommittee's analysis of development proformas, $20,000 to $40,000 is a conservative estimate of the subsidy needed to build or preserve an affordable housing unit.

1. The Cost of Keeping The Housing Problem From Getting Worse: Slowing The Increase In Housing Need

The annual increase in housing need can best be measured by looking at four indicators: increases in slum units; added illegal units; annual increases in rent burdened families and increases in overcrowding. The following table estimates the annual growth in these variables. Please note that the categories overlap — that is, a slum unit may be overcrowded, or a rent burdened family may live in a garage unit. *These statistics can not be added together to determine total growth in the housing crisis.* The statistics should

be used to develop a general impression of the growth of the city's housing problem.

Annual Increase in Housing Need	
Increase in slum units	2,000[2]
Added garage dwellings/illegal units	unknown
Increase in families paying over 40% of income for rent	6,700[3]
Increase in overcrowded units	6,600[4]

Accounting for overlap in the categories of need, the subcommittee determines that *the city must preserve or produce at least 10,000 affordable units each year to stop the growth of the housing problem.* Based on previous analysis, the cost of this production in terms of city subsidy ranges from $20,000 to $40,000 per unit. This puts the cost of stabilizing our housing system, of stopping the increase in housing deprivation, at $200 to $400 million per year.

2. The Cost Of Solving The Housing Problem

The public commitment necessary to eliminate housing deprivation is much larger. Measures of the entire housing problem include the following:

Total Housing Need:	Current Total
Households paying more than 50% of income for housing	130,000[5]
Housing units in need of rehabilitation	111,000[6]
Extremely overcrowded units	89,000[7]
Garage dwellings/illegal units	40,000[8]
Total number of homeless	35,000[9]

This is our housing crisis. Again, accounting for overlap of categories, and depending on how these indicators are combined, 200,000 to 300,000 households in Los Angeles have severe housing problems. Based $20,000 to $40,000 per unit, the cost of eliminating the housing problem ranges from $4 to $12 billion.

Source of Data

These estimates are based on the city's rudimentary data base and are only rough approximations of housing need. (Direct reference to the *Housing The Future Briefing Book*, and the city's *1988 Rent Stabilization Study*). Nevertheless, the estimates do provide a sense of the magnitude of the city's housing needs and the public resources required to address them.

EXISTING HOUSING BUDGET

The city's housing budget is approximately $90 million per year. Housing programs are administered principally by the Community Development Department (CDD) with an annual budget of $25 million and the Community Redevelopment Agency with a budget of $65 million. These figures exclude the Housing Authority whose budget is allocated to the maintenance of its 900 unit public housing inventory. The city's existing housing development incentives *do not* add significantly to the $90 million budget.

ADDITIONAL RESOURCE NEEDS

The midrange estimate of the public assistance necessary to stop the growth in housing need is $300 million. The city's current housing budget is $90 million. To stop the growth of the housing crisis, the city must annually dedicate $210 million in additional resources to the current annual housing budget.

RECOMMENDATION FOR EXPANDING HOUSING RESOURCES

The subcommittee recommends that the city immediately expand its housing resources to a level that will make it possible to stop the growth of the housing problem. To accomplish this objective, new housing resources must be tapped and directed to the resolution of the Los Angeles housing crisis. A three tier approach to expanding city housing resources is discussed in this section. It includes:

1. an aggressive housing incentives program,
2. locally generated new sources of subsidy, and
3. expanding state and federal support.

AGGRESSIVE HOUSING INCENTIVES PROGRAM

The most effective way to fill the gap between housing need and available resources is to establish an aggressive program of providing non-monetary incentives to housing developers. The subcommittee recommends a housing incentives program valued at over $75 million annually that is generated by a package of city incentives to supplement the city's housing budget.

The recommendations consider housing development incentives that do not involve direct cash subsidies from the city. The value of the incentives is based on the pro-forma analyses provided to the subcommittee. The following table shows that even with an aggressive housing incentive program, the city must still increase its housing expenditures $130 million over current levels to meet the objective of keeping the housing crisis from deepening.

Annual Value of Potential City Housing Incentive Package

1. 25 city lots 250,000 sq.ft.	$ 3.3 million
2. 1500 unit density bonus program: 1000 @ market, 300 @ 50%	$ 4.6 million
3. 1500 tax credit units	$ 24.3 million
4. 2500 tax exempt bond financed unit: 2000 @ market, 500 @ 80%	$ 29.4 million
5. 5000 units with fee waivers	$ 12.4 million
Total	$ 74.0 million

1. City Owned Land

Annual Potential: $3.3 million

The subcommittee recommends that the city annually dedicate 25 lots (250,000 sq. ft.) of city owned land to the development of affordable housing. The subcommittee additionally recommends that the city should acquire state surplus lands for this program.

This incentive will have the effect of reducing the land acquisition costs for the developer. In exchange, developers will be required to provide a certain portion of the units at rents targeted to low and very low income residents. This incentive has the potential of producing 150 to 175 affordable units per year. (This assumes land costs at substantially below market rates).

2. Density Bonus Program

Annual Potential: $4.6 million

The subcommittee recommends that the city implement a housing bonus program that enables the developer to increase density 50 percent over the maximum allowed by zoning if 20 percent of the units in the completed project are dedicated to very low income occupancy (households at 50 percent or less of county median income).

The city currently operates a density bonus program that offers a 25 percent density bonus to developers who construct 25 percent of the total units for low or moderate income households or 10 percent of the total units for low income households. However, this program neither provides a significant density incentive, nor requires significant affordability. The subcommittee recommends that a new housing bonus program replace the current density program.

3. Tax Credits

Annual Potential: $24.3 million

The subcommittee recommends that the city promote the use of available federal and state low income housing tax credits to stimulate private investment in affordable housing.

This incentive is generated through tax shelter syndication. Federal and state tax credits are available to projects with rents targeted at households at 50 percent or 60 percent of median income. This incentive has a greater value for projects with a large proportion of low income units.

Federal regulations reduce the tax credit from 9 percent to 4 percent if it is used in conjunction with federal funds on tax exempt financing. Thus, using tax credits without tax exempt financing is one of the most powerful incentives for the creation of low and very low income housing. The subcommittee recommends that the city set a production target of 1500 affordable units per year using tax credits.

4. Tax Exempt Bond Financing

Annual Potential: $29.4 million

The subcommittee recommends that the city continue to provide tax exempt financing to reduce the permanent mortgage rate for developers of affordable housing.

Projects with a large proportion of market rate units are most affected by this incentive because their higher income streams increase funds available for debt service. The higher debt service (mortgage payments) coupled with a lowered tax exempt bond mortgage rate results in a larger mortgage loan and in turn decreases the gap per affordable unit.

Currently, tax exempt financing requires 20 percent of units to be rented at 50 percent of median income, or 40 percent of units at 60 percent of median income. Assuming that tax exempt financing will lower the 10 percent permanent mortgage rate two percent to 8 percent, the housing incentives program has the potential for producing a total of 2,500 units per year: 2,000 units at market rents and 500 units at 50 percent of median income rents.

5. Waive City Fees

Annual Potential: $12.4 million

The subcommittee recommends that the city waive building and user fees on all projects with 20 percent or more dedicated units affordable to households earning 50 percent or less of the county median income or 40 percent of units affordable to households at 60 percent or less of county median.

Fee waivers will eliminate all fees and charges paid to the city by the developer on

all units. A fee waiver by itself does not create a strong enough incentive to promote the production of affordable housing. However, it can be used as an additional incentive within a layered multiple incentive package to reduce city subsidies required to assure affordability. The aggressive housing incentives program should issue fee waivers for at least 5,000 units per year.

DEVELOPING NEW SOURCES OF SUBSIDY

The city must find new, additional sources of subsidy for housing if it is to slow down the housing crisis. In the following table, four significant sources of subsidy with a rough estimate of the potential annual revenue of each is listed.

Source	Potential Annual Revenue
1. Linkage Program	$5 to 15 million*
2. Document Transfer Tax	$8 to 10 million
3. General Obligation Bond	$25 million**
4. CRA Cap Proposal	$50 to 100 million
Total	$88 to 150 million

1. Linkage Program

Annual Potential: $5 - $15 million

The subcommittee recommends that the city develop a linkage program that ties commercial construction to affordable housing development.

A linkage program attaches an impact fee or exaction to the development process. It generally affects a particular type of development or activity, e.g., office and commercial growth, residential growth, condominium and cooperative conversions.

The theory behind a linkage program is that the construction of new office or commercial space generates a demand for housing as more workers are brought into the city. As a result, the housing market tightens, creating particular hardships for low income households for whom adequate affordable units are especially difficult to secure. In other cases, office development may cause direct or indirect displacement of low income housing units which are not typically replaced by the private market. As with a number of development impacts on city services and facilities, developers can be asked to help mitigate the impact of their projects on housing. This is accomplished in many cities through a linkage program.

Linkage programs require that developers of office and commercial space either construct affordable housing or contribute a fee in lieu of direct construction as one of the requirements that must be met to receive approval for development. Thus the commercial development is "linked" to affordable housing development.

Generally, developers have no alternative but to meet the linkage requirement if they want to develop in the city or area where the requirement applies. Alternatively, a linkage program can apply only when the developer elects to take advantage of a density bonus which is offered in exchange for meeting the requirement. This is the case for programs in Seattle and Miami.

The key element in developing a linkage program is determining the housing impact that justifies the linkage requirement itself. In a linkage program it is important to es-

* Amount generated depends on the fee level per square foot of construction and the applicable square footage.

** This assumes $100 million bond utilized over a four year period.

tablish the relationship between the growth in commercial and office building construction and the need for affordable housing. This relationship also forms the basis for the formula which establishes the amount that will be required of each developer.

Determining the developer contribution per square foot of construction required to mitigate housing impacts has been a controversial and highly debated process in some cities. Equally controversial is the establishment of development size thresholds under which no linkage fee is exacted.

Examples From Other Cities

Linkage programs now exist in eight cities: Boston, Cherry Hill (New Jersey), Jersey City, Miami, Palo Alto, San Francisco, Santa Monica and Seattle. The attached chart gives a description of the applicability and fee schedule for each of these programs (see Attachment A). Programs are also under consideration in Cambridge, Chicago, Hartford, New York City, and Washington, D.C..

Of the programs described on the chart, each affects different types of commercial and residential development. The greater the number of development types included in the category of "linked" developments, the greater the potential for the linkage program to generate revenue. Note for example that the Boston program taxes almost all types of commercial development, whereas the San Francisco program taxes only office building developments. Also attached is a chart showing the revenue generated by each of the eight existing linkage programs (see Attachment B).

For the existing linkage programs (see Attachment A), the in lieu fee ranges from $1.50 per sq.ft. (Jersey City) to $15.30 per sq. ft. (Seattle with density bonus plan). The minimum exempt threshold ranges from zero (Jersey City, Miami and Palo Alto) to 100,000 sq. ft (Boston). A local example, the Santa Monica linkage program charges $2.25 per sq.ft. for the first 15,000 sq.ft. and $5.00 per sq.ft. thereafter. Projects with less than 15,000 sq.ft. of floor space have no fees charged[10].

Los Angeles Potential

The revenue generated by a linkage program will vary depending upon the fee per square foot of development and the annual volume of development subject to the fee. Assuming five million annual square feet of applicable development, every one dollar contribution per square foot would generate $5,000,000.

Legal Issues

California state legislation gives the City of Los Angeles statutory authority to enact linkage ordinances under its zoning powers. However, stringent court scrutiny has come into play when the question of ordinance constitutionality is posed. A recent U.S. Supreme Court decision (*Nollan vs. California Coastal Commission*) found linkage programs to be constitutional only if a cause and effect relationship is established between the activity subject to the exaction and the use of funds generated.

At issue is the potential finding that an exaction constitutes a taking of private property without just compensation. The key language used in determining whether a regulation will trigger a taking is that it must advance legitimate state interests and not deny economically viable use of private land.

Thus an essential part of establishing a linkage program is a study that shows there is a substantial or a rational relationship (referred to as nexus depending on the type of constitutional challenge) between the linkage program exaction and its public interest goals. Linkage programs are based on the notion that new commercial development creates the need for affordable housing and the linkage program is designed to meet that need.

Linkage studies need to answer questions of whether and to what extent office development increases the demand for housing. In addition, the funds exacted from the developer must be earmarked for use in a way that provides some "benefit" to the very development on which the ordinance imposed the requirement. Thus, it may be necessary to impose geographic limitations or define regional markets that delineate an area within which the units must be provided.

Other Issues

Linkage programs have been strongly opposed by downtown developers who suggest that the exactions will encourage development to go elsewhere and that the requirements will force them to raise rents to unacceptable levels. Also, there is the possibility that a city linkage program might conflict with city economic development objectives. The committee recognizes the problems associated with developing a linkage program but is confident that the city can balance interests to overcome impediments to implementation.

2. Document Transfer Tax

Annual Potential: $8 million plus

The subcommittee recommends that the city double its component of the document transfer tax and commit funds raised to affordable housing programs. The document transfer tax is applied to every property deed when recorded, and to other documents relating to the ownership or transfer of realty. Los Angeles County collects the document transfer tax and allocates 50 percent of the revenues collected from transfers of real estate in Los Angeles city to the City of Los Angeles. The tax actually received by the City of Los Angeles is $.55 per $1000 of net consideration involved in the transfer. (Net consideration is the value of the property minus the amount of loans outstanding on the property). In 1987, Los Angeles City received approximately $8.5 million from the document transfer tax[11].

The subcommittee recommends that the city's share of the tax be doubled and the additional revenue be allocated to a housing fund. Doubling the City of Los Angeles' share of the document transfer tax will generate an additional $8.5 million per year.

Legal Issues

In 1968, the California legislature gave local governments the power to tax on the transfer of real estate (*California Tax and Revenue Code 11.9.02 to 11.9.34*). The Los Angeles County Document Transfer Tax rate has never been changed. Since California taxes are governed by proposition 13, the recommended increase may require a two-thirds vote of the general electorate.

3. General Obligation Bond

Lump Sum Potential: $100 million

The subcommittee recommends that the city immediately infuse $100 million into the city's housing programs through the sale of a $100 million general obligation bond. Such an effort could include the Mayor's proposal to fund seismic rehabilitation with a general obligation bond.

Governments and special district entities such as redevelopment agencies, housing authorities, and transit authorities raise funds by using bonds. General obligation bonds are backed by the full faith and credit of the issuer so that any revenue source may be used to pay off the bonds if the community defaults. Interest on publicly-issued bonds is tax exempt, enabling the public sector to pay significantly lower interest rates than the private sector. A two-thirds vote of the general electorate is necessary to approve the issue of a General Obligation Bond.

Los Angeles Potential

Mayor Tom Bradley has proposed that a $100 million dollar General Obligation Bond be issued by the city for the purpose of seismic renovation of brick buildings that do not meet seismic safety standards. The initiative is prompted by the potential for losing a significant portion of nearly 50,000 housing units in brick buildings. The cost of rehabilitation is estimated to be $10,000 - $15,000 per unit.

The funds raised through this bond would be earmarked exclusively for three purposes:

1. to encourage reinforcement of seismically deficient buildings
2. to preserve the lower income housing stock
3. to maintain housing affordability for households currently residing in seismically deficient buildings.

Legal Issues

A General Obligation Bond is supported by tax revenues from the General Fund. Proposition 13 established that at least a 2/3 vote of the general electorate is required before a city may issue a General Obligation Bond.

4. Lifting The CRA Cap

Annual Potential: $50 - $100 million

The subcommittee recommends that the city actively pursue the removal of spending limits on the Community Redevelopment Agency Central Business District project. Dedication of one-half of the funds from that project to low income housing is by far the most significant new housing resource evaluated by the subcommittee.

The Central Business District development project of the City of Los Angeles' Community Redevelopment Agency represents a significant potential housing resource. Mayor Bradley has proposed that spending limits imposed on that project be lifted from the current $750 million level and that $2.125 billion be dedicated to housing for very low, low and moderate income households and seniors.

The $2 billion would flow into the city over a 20 year period. The redevelopment funds could be applied to housing as they flow to the Redevelopment Agency, or they could be bonded against to increase fund availability over the next five or ten years. Depending upon the extent of bonding, raising the

spending limit as proposed could generate $50 to $100 million annually.

Raising the downtown redevelopment project cap requires approval by the County of Los Angeles, Councilman Bernardi, the State Superior Court and, ultimately, the City Council. The Central Business District (CBD) project cap was imposed in 1976 by the court pursuant to a suit brought by the County Supervisors and Councilman Bernardi. They argued that a $750 million budget was sufficient to spark the redevelopment of downtown, and that redevelopment funding pulls funds away from a county tax base that supports needed community and social services. Once the cap is reached, tax funds previously dedicated to CRA would flow to the county and other public jurisdictions.

What the litigants could not have predicted was the explosion of homelessness, the drastic decrease in federal support for housing, and the resulting housing crisis in Los Angeles. The Mayor's proposal would replace lost federal housing funds with redevelopment funds. Its success requires that the county see that the value of this investment in housing outweighs potential cash benefits to the county if the cap stays in place.

The County of Los Angeles will also have to consider the impact of the Gann Initiative cap on its expenditures. Under this Proposition 13 era restriction, county spending is also restricted and is very likely that the county could not spend CRA/CBD tax increment revenues even if it received them. Negotiations are underway between the county and the Redevelopment Agency.

In addition to Central Business District funds, there is a cap on other CRA projects. The subcommittee also recommends that the cap on Pico Union, Chinatown and North Hollywood redevelopment districts be raised to support affordable housing development.

EXPANDING STATE AND FEDERAL HOUSING SUPPORT

The subcommittee recommends that the city systematize and significantly expand its housing lobbying efforts in Sacramento and Washington.

State and federal housing resources can be expanded by lobbying for increased housing budget allocations, and for Los Angeles' fair share of existing resources.

The city currently has only a minor housing lobbying presence in Sacramento and a small multi-purpose lobbying team in Washington. The results of this modest effort are telling: California receives less per-capita housing assistance than any state other than Utah. Of 20,000 valuable Section 8 Moderate Rehabilitation Certificates issued by HUD since 1985, Los Angeles received none. State housing expenditures could also be increased: California spends only 64 cents per captia for housing while Massachusetts spends $17.80 per capita. Clearly the city needs more active lobbying, and it needs to assist Los Angeles developers to more aggressively pursue state program assistance.

FOOTNOTES AND SOURCES

1. Blue Ribbon Committee For Affordable Housing, *Housing the Future Briefing Book*, 1988, Section 9, p.151.
2. Abe Kahn, City Attorney's Slumlord Task Force.
3. *Housing the Future*, Section 3.2, p.17.

   Rent Stabilization Review, 1988, p.114.
4. *Housing the Future*, Section 3.3, p.18.
5. *Housing the Future*, Section 3.2, p.17.
6. *Housing the Future*, Section 5, p.44.
7. *Housing the Future*, Section 3.3, p.18.
8. *Housing the Future*, Section 3.4, p.20.
9. *Housing the Future*, Section 3.9, p.30.
10. Mary Brooks, *Developing Housing Trust Funds*, Washington, D.C.: Center for Community Changes, 1988. p.55
11. Roy Pauley, County Collector's Office.

ATTACHMENT A

SUMMARY FEE REQUIREMENTS FOR LINKAGE PROGRAMS

Locality	Applicability	Fee Option	Construction Option
BOSTON, Massachusetts DEVELOPMENT IMPACT PROJECTS ORDINANCE	New, rehabilitated, or expanded Office, retail, service, institution, education, hotel/motel development with gross floor area in excess of 100,000 sq.ft.	$5.00 per sq.ft. of gross floor area over 100,000 sq.ft. paid out over 7 years in equal installments first due upon issuance of the building permit	Pay in total the discounted present value of the required fee amount toward a housing creation project
CHERRY HILL, New Jersey HOUSING IMPACT FEE	New Residential and non-residential, except modest-priced residential units	1.5% of residential sq.ft. X $58.25 (1988) or 3.0% of construction costs for non-residential or $1 per sq.ft. paid in 5 equal installments first due upon issuance of the building permit	Developers of multi-family housing are required to set aside 10-20% of a project's units for low and moderate income households
JERSEY CITY, New Jersey AFFORDABLE HOUSING LINKAGE PROGRAM	New Market rate office, retail commercial mall, and residential developments	negotiated project by project based on guidelines of $12,000 per unit or $1.50 per sq.ft.	.116 units for every 250 sq.ft. of office space minus the first 100,000 sq.ft.; 10% of residential developments
MIAMI, Florida FLOOR AREA INCREASES	New Residential, non-residential and combination use buildings	each $6.67 contributed allows an increase of one sq.ft. of non-residential floor area	One sq.ft. residential floor area on-site allows an increase of one sq.ft. non-residential floor area
PALO ALTO, California INDUSTRIAL-COMMERCIAL MITIGATION ORDINANCE	New or converted Industrial or commercial projects with 2,500 sq.ft. or more, excluding the first 20,000 sq.ft., or where 2 dus or more are removed	$2.60 per sq.ft.	Construct on- or off-site approximately .0486 units for every 1,000 sq.ft. of development

Locality	Applicability	Fee Option	Construction Option
PALO ALTO, California BELOW MARKET HOUSING PROGRAM	New Residential developments of ten or more units	3% of actual sales price of units sold	Construct one below market rate unit on-site for each 10 units or construct or rehab 1 bmr unit off-site for each 9 units
SAN FRANCISCO, California OFFICE AFFORDABLE HOUSING PRODUCTION PROGRAM	New Office development projects with net addition of 50,000 or more gross sq.ft.	$5.39 per sq.ft.	Construct .386 units housing for every 1,000 sq.ft. or combine with partial payment of fee equal to $13,963.73 per unit
SANTA MONICA, California PROJECT MITIGATION ORDINANCE	New Office developments of more than 15,000 sq.ft. or with addition of 10,000 sq.ft.	$2.25 per sq.ft. for first 15,000 sq.ft. and $5.00 per sq.ft. thereafter	Construct on- or off-site a number of units equal to the number possible within the fee required at $30,060 per unit
PROGRAM 12 IN-LIEU FEE OPTION ORDINANCE	New Residential developments of 5 or more units	$3.00 per gross sq.ft. for first 10,000 sq.ft. and $4.00 per sq.ft. thereafter	Construct 15% low and moderate inclusionary housing program
SEATTLE, Washington DOWNTOWN HOUSING BONUS PROGRAM	New Commercial development in certain downtown zoning areas	$10.00-$15.30 per sq. ft. of bonused commercial space	Varies according to the type and rent or sales level of housing to be produced; transfer of development rights from low-income housing also an option

Source: Mary Brooks, Housing Trust Fund Project

ATTACHMENT B

REVENUE GENERATED FROM LINKAGE PROGRAMS

Locality	*Revenue Generated*
Boston, Massachusetts	8 housing creation proposals-2,553 dwelling units
	10 developments = $1.2 million
	34 projects = $70 over next 10 years
Cherry Hill, New Jersey	$1 million/year for 6 years
	$1.5 million/year for the next 6 years
Jersey City, New Jersey	704 units committed plus over $9 million
Miami, Florida	$1 million
Palo Alto, California	$3.3 million from 32 industrial commercial projects and 10 residential projects
San Francisco, California	10 projects have committed to building units; 25 have committed $26 million;
	Another 6 projects have commitments for over 831 units
Santa Monica, California	5-25 units annually plus $1 million/year
Seattle, Washington	Information not available

3. RECOMMENDATIONS OF THE SUBCOMMITTEE ON BRICK BUILDINGS

STATEMENT OF PURPOSE

This is the final report of the Brick Building Subcommittee of the Blue Ribbon Committee for Affordable Housing. It describes the purpose of the subcommittee, defines the brick building problem and recommends programs and policy for addressing it. The subcommittee recommends that the city provide capital subsidies to owners of brick buildings in the form of low interest, deferred payment loans. The purpose of these loans is to provide an incentive to maintain affordable rents and to reinforce the buildings to improve their safety in earthquakes. Additional subcommittee recommendations are at the end of the report.

The purpose of the subcommittee was to find ways to preserve Los Angeles' existing stock of brick apartment buildings that are seismically unsafe, while preserving the affordability of this housing for current and future low income tenants. The subcommittee undertook the following three specific tasks:

1. Define the problem.
2. Recommend city programs that would preserve affordability in brick buildings that must be brought up to seismic safety standards.
3. Recommend city policies and procedures that will expedite the preservation of brick buildings.

THE PROBLEM

Los Angeles has 1,566 brick apartment buildings, comprising nearly 50,000 units, built before 1933 that must be seismically reinforced in accordance with provisions of the city's Earthquake Hazard Reduction Ordinance (EHRO). Enforcement of EHRO will begin to have significant impact early in 1989.

These 50,000 housing units are the single most important component of the city's affordable housing stock. Average rents in brick buildings are $350 per month, compared to $525 for all rent stabilized units. With the exception of the city's 9,000 public housing units, there is no housing more affordable in the city than brick apartments. However, in spite of the affordability of these units, rents in brick buildings are the equivalent of over 40 percent of a minimum wage worker household income, and over 60 percent of the income of senior citizens on Social Security.

The cost of reinforcing brick buildings, including associated fire safety and other improvements, ranges from $4,000 to $10,000 per unit. When these costs are passed on through to the tenants, rents increase from $100 to $160 per month. Older high rise apartments may be similarly affected by the sprinkler ordinance which requires extensive capital improvements that will impact rents.

This means that average rents in reinforced buildings may rise from today's rent of $350

per month to over $500 per month. The impact of this rent increase on existing tenants is severe. Rents for low wage workers rise from 40 percent of income to over 60 percent. Senior citizens now allocating over 50 percent of their income for rent must pay over 80 percent of their income for rent or move out.

The essential public policy question is: where are these families and seniors going to move? They already live in the most affordable housing in the city—housing that they will soon no longer be able to afford. The answer is that they have three choices: don't move and endure the hardship of a brutal rent burden; double or triple up; find illegal alternatives such as backyard shacks, slum housing and garages; or join the ranks of the homeless. None of these alternatives is acceptable; neither for the well being of the tenants, nor for the health of the city.

The problem presented by the necessary reinforcement of brick buildings is not the potential loss of housing through demolition of substandard buildings. The Los Angeles rental market is so constrained that most building owners can easily pass capital improvement costs along to existing tenants or new higher income tenants.

The crisis confronting the city's poor in the reinforcement of brick apartment buildings is the loss of housing affordability at the bottom tier of the housing market through rent increases, the resulting displacement of low income families and seniors, and the unacceptable squalid alternatives facing displacees.

The urgency of addressing this crisis cannot be overemphasized. Unless the city takes immediate action, tens of thousands of units of affordable housing will be lost in the next two years.

RECOMMENDATIONS

RECOMMENDATION 1: SEISMIC REHABILITATION PROGRAM

Program Objectives

The subcommittee identified three principle objectives for a seismic reinforcement program:

1. The preservation of affordability.
2. The preservation of brick buildings.
3. Owner participation.

Dilemma of Conflicting Objectives

The objectives of owner participation and tenant affordability are in direct conflict. To recoup reinforcement costs, owners must increase rents, but increased rents reduce affordability and in many cases displace existing occupants. If rents are not increased, owner cash flow and profit will drop and program participation will be low. Subsidized rehabilitation programs that significantly restrict rents without providing incentives inhibit private sector participation.

To resolve this conflict the ideal seismic reinforcement program should neither increase rents nor reduce cash flow. The simplest approach to realizing that ideal in the short term is a rehabilitation grant with restrictions that do not allow rehabilitation costs to be passed through to rents. In the long term, however, affordability will be lost as tenants move out and rents increase through vacancy decontrol. To preserve affordability in the long term, deeper subsidies will be required to cause owners to forgo rent increases and vacancy decontrol.

Therefore, the subcommittee's recommendations are based on a deep subsidy model.

The subcommittee recommends one rehabilitation program:

Capital Improvements Deferred Loan Program

The Capital Improvements Deferred Loan Program is structured to provide an incentive to both rehabilitate brick apartments and preserve their affordability. The program would provide a relatively deep subsidy, $15,000-$20,000 per unit. This is in contrast to the city's Community Development Department's shallow subsidy program that offers $5,000 to $8,000 amortizing loans with no restriction on rents. The Community Development Department (CDD) program results in immediate pass through of reinforcement costs to rents, and 30 percent displacement of existing tenants. This experience led the subcommittee to conclude that while shallow subsidy programs may increase the number of units that will be rehabilitated per $1 million of public resources, these programs actually accelerate the displacement of low income families and seniors and accelerate the disintegration of the critical bottom tier of the city's affordable housing system.

Program Components

The Capital Improvements Loan Program is patterned after the deep subsidy rehabilitation loan programs operated by the Community Redevelopment Agency. Unlike the CRA loans, no loan payments are made until the end of a 20 year term, and the amount of the loan is not tied to rehabilitation costs, but instead both offsets rehabilitation costs and compensates for potential rent loss. Under the program, a 20 year, $15,000 per unit, deferred payment, five percent simple interest loan would be made to the owners of brick buildings under the following conditions for the full term of the loan:

1. The building will be brought up to seismic standards and HUD Housing Quality Standards (HQS).

2. For 20 years, rents will be maintained at current levels with rent adjustments comparable to those mandated by the Rent Stabilization Ordinance.

3. No capital improvement costs associated with seismic work and HQS will be passed through to rents.

4. Units will be rented to families and seniors earning 80 percent and less of the county median income.

5. The loan will be fully assumable and subordinate to a first deed of trust.

6. Simple interest and principle will be due in 20 years; however, if units remain affordable per the regulatory agreement, interest will be forgiven;

8. Interest and principle may be forgiven if affordability is extended an additional 15 years.

9. There would be no owner equity match requirement.

10. Overcrowded units will be eligible for loans, but the owner will rent to appropriate family size upon vacancy.

Program Scale

The subcommittee concludes that a realistic target for participation in an aggressive preservation program is 12,500 over a three year period. This would involve 25 percent of the city's brick units. By comparison, CDD and CRA build or preserve 5,000 units of all types per year. This brick building target is 4,166 units per year.

Marketing

A 4,000 unit per year program will require a major marketing effort. One effective marketing tool could involve assistance in packaging low income housing tax credit syndications.

Essential to marketing is program simplicity and speed of processing. Developers complain that current city programs are confusing and seem to offer different options to different projects. Each project turns into an extended negotiating process with uncertain outcomes. This lack of predictability, confusion and slow processing deters many would-be program participants. Marketing will be much easier if guidelines of a new program are fixed and clearly stated.

The subcommittee is not optimistic about marketing a program that preserves affordability to owners of buildings located in gentrifying regions of the city. For example, the market potential of neighborhoods west of Normandie, in the Fairfax area and in parts of Hollywood far exceeds the incentives recommended by the subcommittee. Therefore, efforts should be concentrated closer to downtown and in Hollywood.

Bonus for Affordability

The proposed program has the drawback that it doesn't preserve affordability beyond 20 years, and is in effect replicating the experience of expiring federal subsidies that is so problematic today. The subcommittee recommends an alternative that could correct this in the loan program: after the 20 year program period, the city should waive interest and principal payments in exchange for a 15 year extension of the rent restrictions.

Program Cost and Funding

Depending upon the source of funds, over a 20 year period principal and interest will cost the city approximately $30,000 per unit, much of which will be recovered upon loan repayment. At 4,000 units per year, initial principal costs will be $60 million per year.

Source of Loan Funds

In the case of the loan program, city funds would be derived from HUD Community Development Block Grants, state funds (Prop. 77) or locally funds generated by tax increment bonds or general obligation bonds. Based on projected funds availability, the estimated program mix would be one-third state and federal, and two-thirds local funds. In all cases, if the loans are repaid, principal and interest can be recovered in full in 20 years.

RECOMMENDATION 2:
EXTENSION OF THE EARTHQUAKE HAZARD REDUCTION ORDINANCE

While the subcommittee supports the safety objectives of the Earthquake Hazard Reduction Ordinance, it recommends that its implementation be coordinated with affordable housing objectives. As EHRO now stands, major compliance activity will begin in early in 1989. These EHRO enforcement time requirements exacerbate the growing problem of loss of affordable housing and tenant displacement. In the frenzy to comply with the restrictions, several problems are surfacing.

Problems Arising from EHRO Compliance Activity:

1. There are not enough qualified contractors to meet the needs of the owners under the current compliance schedule.

2. As a result, the high demand of owners that are trying to rehabilitate their buildings within the time allowed, are forcing the costs to increase.

3. Inevitably, these cost increases will be passed through to tenants.

The subcommittee recommends that the time restrictions created by the ordinance be extended for several reasons.

Reasons for Extending EHRO Deadline:

1. The deadline will inevitably be extended in an ad hoc process because Building and Safety can't handle the volume.

2. Extensions will give owners sufficient time to apply for and to receive the public assistance necessary to prevent passing the rehabilitation costs through to the rents.

3. Additional time will enable the contractors and developers to phase in the rehabilitation, thereby assuring quality work at reasonable costs.

4. Additional time will also open the field to new developers and contractors. The increase in available work force and competition should also decrease the costs of rehabilitation.

The subcommittee therefore recommends that implementation of the EHRO be phased in over a four year period beginning January 1, 1989, with one-quarter of affected units being processed each year via a priority schedule based on occupancy and risk.

RECOMMENDATION 3:
NEW DEVELOPER/OWNER ENTITIES

Another way to achieve long-term affordability is to seek out developer/owners who will purchase and rehabilitate brick buildings under economic structures that do not depend on rent increases and building appreciation. Non-profit developers in general, and for profit developers structuring tax credit syndications can make long-term affordability a chief element of project economics. Priority and technical assistance should be given to developers who will combine city assistance with state and federal tax credits to guarantee affordability for 30 years or more.

RECOMMENDATION 4:
BUILDING AND SAFETY PROCESSING

The subcommittee found the time and uncertainty of the current building plan and inspection process increases reinforcement costs and recommends that the Department of Building and Safety make the following changes:

1. Reduce plan check time from 6 months to 60 days;

2. Reduce the number of field changes specified by inspectors;

3. Adopt a Deputy Inspector system wherein contractors can hire certified inspectors for field inspections.

RECOMMENDATION 5: REHABILITATION ALTERNATIVES

The subcommittee recommends that the city explore on an ongoing basis programs for restructuring debt on brick buildings at low interest rates. Combining rehabilitation costs in a low interest rate mortgage that finances the entire building could provide a powerful incentive for some owners to preserve the affordability of their buildings. Debt restructuring could also be combined with secondary financing such as the loan program recommended by the subcommittee. Program components will change with financial market variables, but could include tax exempt bond financing, city credit enhancements, rate buy-downs, rent subsidies, etc.

RECOMMENDATION 6: CITY RESTRICTIONS ON DEMOLITIONS

The subcommittee recommends that in order to receive a demolition permit for a brick building, an owner would have to provide evidence that he has applied for rehabilitation assistance from the city and was denied due to economic or structural infeasibility.

RECOMMENDATION 7: PREVAILING WAGE

The Community Redevelopment Agency presently exempts affordable housing construction projects of $250,000 or under from prevqailing wage requirements. The Blue Ribbon Committee recommends that the Housing Commission review this threshold periodically and make recommendations.

4. RECOMMENDATION OF THE SUBCOMMITTEE ON PARTNERSHIPS

STATEMENT OF PURPOSE

The Housing Partnership Subcommittee recommends the creation of the Los Angeles Housing Partnership to fill critical gaps in the housing delivery system that are not being adequately addressed by either the private or public sectors. The partnership will mobilize existing resources to fill critical needs in the housing delivery system.

The subcommittee recommends that the Los Angeles Housing Partnership be modeled after successful efforts underway in other parts of the country. Partnerships enable cities to diversify housing funding and circumvent bureaucracy through a decentralized housing delivery system focused on community based developers. In cities such as Boston, Chicago and New York, and in Wisconsin and Massachusetts, partnerships are a conduit that channels investment capital, conventional loan funds and public subsidy to non-profit entities that develop housing in low income and minority communities. In addition to investment capital, loans and subsidy, partnerships provide technical assistance, operating support, venture capital and predevelopment loans to community developers.

L.A. HOUSING PARTNERSHIP STRUCTURE AND BUSINESS ACTIVITY

STRUCTURE

The Los Angeles Housing Partnership (LAHP), will be a non-profit corporation with a small board comprised of representatives from the private, public and community sectors of Los Angeles. Under the guidance of private sector leadership, the partnership will funnel investments, subsidy, and loan funds to affordable housing projects developed by non-profit community based developers. In addition to long-term financing, the partnership will provide access to risk capital and predevelopment funds for projects in the earliest stages of development. The partnership will also link community based organizations to development training and technical assistance as well as program support. In short, the Los Angeles Housing Partnership will mobilize all of the resources necessary to initiate and sustain a vital community based development sector that can successfully tackle the city's most difficult housing problems.

Independent Corporation

Without exception, successful housing partnerships across the country are entities operating independent of, but in close cooperation with local government. This independence is regarded as crucial in attracting private sector funds, because the private sector has been reluctant to become involved in programs under government auspices.

The Los Angeles Housing Partnership will be an independent non-profit 501(c)(3) corporation governed by a board of directors.

LAHP Board:

The partnership will be governed by a board of no more than 10 directors chosen for their expertise and leadership in business, lend-

ing, real estate, and housing and community development.

The initial board could be structured as follows:

- Chair: Corporate Leader
- Two additional Corporate Seats
- Two Community Based Organization Seats
- Two Lender Seats
- One City Seat

The Partnership Subcommittee could function as a search committee for the initial board. After the first appointments are made, the partnership board would be self-perpetuating.

LAHP Staff

The partnership will be managed by an executive director supported initially by not more than five line staff. LAHP will rely on consultants and existing organizations for specific project related services, and reserve LAHP staff for coordination and resource development.

An administrative budget would be allocated from public capital funds reserved for the partnership by the City of Los Angeles. The administrative budget would not exceed eight percent of capital resources.

BUSINESS ACTIVITY

The Los Angeles Housing Partnership business activity will include mobilizing and managing all of the resources necessary to the development process. The partnership will be a one stop center at which community based organizations can obtain development training, technical assistance, land option funds, predevelopment funds and ultimately all required long-term development financing. Once the project is completed, the partnership will become a source of management assistance or referral. LAHP will provide some of these services directly, and coordinate the others.

Technical Assistance

If the partnership is a wheel and the equity funds, loan funds, public subsidy, risk capital and community based developers are the spokes, then the technical assistance group is the hub. The technical assistance (TA) provider links the community developer to interim and long-term financing. The technical assistance group will provide preliminary feasibility analysis, interim loan packaging and put together the entire long-term financial package that includes the equity syndication, mortgage financing and public financing. In addition, the technical group will provide assistance in selecting a project development team, estimating project costs, planning for project marketing and management and negotiating joint ventures with other developers.

It is essential that technical assistance be of the highest professional quality, and that the provider be thoroughly familiar with LAHP standards and procedures. The importance of this function to the Los Angeles Housing Partnership requires that it establish a primary relationship with an entity experienced in community based development.

While use of the LAHP primary technical consultant will not be mandatory, LAHP will require all but the most experienced community based developers to use a technical assistance consultant, and consultants will have to be approved by the partnership.

Training

Los Angeles lags behind other major American cities in the number of community based organizations involved in housing development. The reason: lack of program and development support and lack of training. LAHP will work with a housing development training program to introduce non-profit community service organizations such as church groups and new community development corporations to the technical skills necessary to become involved in affordable housing development.

Operating Support

LAHP will support community developer staff costs for financing project development, but the partnership will not provide general staff support to community based developers.

Management

Quality management is essential to the involvement of investors, private lenders and the public sector. Community based developer/owners will be required to engage experienced private management subcontractors. The establishment of effective community based management entities will be an essential program goal of the partnership.

Eligible Developers

Although emphasis will be placed on non-profit community based developers, LAHP will support any developer who meets the project criteria so long as ownership after development is vested in a qualified community based non-profit organization.

Eligible Projects and Production Levels

LAHP projects must primarily benefit very low or low income households and remain affordable. Project types will be determined by the LAHP board. The partnership will focus on one or two project types so that all actors in the LAHP process can quickly develop expertise and produce at high volume. Depending on resource availability, the first year production goal could be as high as 1,000 units. Project types may include the following:

- Single room occupancy hotel purchase and rehabilitation,
- Brick building purchase, reinforcement and rehabilitation,
- New construction on vacant lots in existing neighborhoods,
- Purchase and rehabilitation of aging apartment buildings,
- Development on 25 pre-identified city owned lots,
- Concentrated purchase and rehabilitation and new construction in specific inner city neighborhoods and
- Manufactured housing in inner city neighborhoods.

PROJECT FINANCING

Risk Capital

Establishment of a dynamic entrepreneurial community-based development sector requires that acquisition, option and predevelopment funds be made available to the non-profit developer on a quick turnaround basis. Ideally, in its first years of operation the partnership should have access to $4 million in acquisition funds and $1 million in predevelopment loan funds. Both acquisition funds and predevelopment funds will be repaid from project financing on approximately 18 month cycles. After its first year of operation, LAHP should establish a $10 million short term loan fund to

support difficult projects that require three to five years "aging" before private lenders will commit to long-term financing.

Source of Risk Capital

Both private foundations and the State of California have predevelopment loan funds that will combine to meet LAHP needs. Land funds and five year loan funds will come from a mixture of private lender commitments, insurance company investments and foundation grants.

Equity Source

LAHP will work with equity sources who are experienced syndicators of Low Income Housing Tax Credits for community based non-profit development. LAHP and these equity investors will collaborate to generate between $10 and $20 million annually for Los Angeles based projects from corporations investing in a blind pool fund created by LAHP. The partnership will also work with other equity sources that can work within LAHP guidelines.

Public Subsidy

It is proposed that LAHP project subsidy will initially come from an appropriate allocation from the Community Redevelopment Agency. (This assumes expanded CRA capacity through lifting of its Central Business District spending cap.) Eventually LAHP subsidy needs could come from a dedicated source such as a housing linkage program, real estate transfer fee or other proposals of the New Development Concepts Subcommittee. LAHP will diversify its sources of public subsidy, taking advantage of state and federal assistance whenever possible. However, LAHP's primary public partner will be the City of Los Angeles.

Long-Term Financing

LAHP will work with lenders, equity syndicators and public subsidy sources to synchronize underwriting standards and processing procedures for generic project types, and will work with lenders and syndicators to obtain funding level commitments. Community based developers going through LAHP will know precisely what underwriting standards will be applied to their project, receive rapid processing, and be able to assume fund availability. Lenders and syndicators will benefit from knowing that LAHP has reviewed the project and the developer, and will stand behind the project if any problems should arise.

Loan Source

LAHP will solicit participation from lenders who are willing to coordinate their lending procedures with equity investment sources and public subsidy requirements. Lender participation will be enhanced through use of loan guarantees and credit enhancements.

New Resource Development

An important ongoing function of the partnership will be to bring new sources of state, federal, and philanthropic support to housing in Los Angeles. LAHP staff will maintain a close liaison with state and HUD program representatives to channel resources to LAHP staff and the Board of Directors will take a leadership role in developing and influencing new legislation that will expand affordable housing opportunities.

LOS ANGELES HOUSING PARTNERSHIP OBJECTIVES

Objectives for the Los Angeles Housing Partnership are based on filling critical

gaps and deficiencies in the Los Angeles housing delivery system as identified by the Blue Ribbon Committee. The objectives include:

- Increase affordability beyond that achieved by current city programs that work within the constraints necessary to for-profit developers—constraints that result in too little affordability over too short a time.
- Expand the numbers of community housing developers (CD's).
- Expand technical assistance for would-be CDs.
- Expand housing activity in the inner city—South Central, Watts, East Los Angeles, Pacoima, etc.
- Develop a dependable source of equity.
- Increase public funding predictability and speed of processing.
- Increase private lender activity, predictability and speed of processing of low income housing.
- Generate program support for CDs.
- Provide venture capital for CDs.
- Expand preservation activity in general, and for brick buildings in particular.
- Assure quality management for affordable housing.
- Increase city receptivity to non-profit developers of very low income housing.

BACKGROUND ON HOUSING PARTNERSHIPS

The subcommittee finds that successful partnerships generally share three common characteristics:

Focus. Unlike most housing agencies with multiple objectives, partnerships focus on doing one or two things extremely well. They don't have confusing political motivations; they are small and therefore do not have to worry about maintaining large bureaucracies; and they do not operate a myriad of programs. They have one job to do and they do it well.

Drive. Successful partnerships are driven organizations. They are aggressive and persistent. They usually take on the personality of their corporate head or executive director. Unlike a bureaucracy, partnerships are active, not re-active; dynamic, not static.

One-stop assured processing. Partnerships provide their developers with a single dependable development financial package and the partnership puts its imprimatur on that package to assure acceptance by participating lenders and investors.

5. RECOMMENDATIONS OF THE SUBCOMMITTEE ON EXPIRING USE RESTRICTIONS

STATEMENT OF PURPOSE

The purpose of the Expiring Uses Subcommittee is to recommend a strategy for preserving the affordability of the city's privately owned, HUD subsidized low-income housing with expiring federal rent regulations. This report recommends that the city undertake a five-part subsidized housing preservation strategy. The principle components of this strategy are the following:

1. Monitoring
2. Regulation
3. Restructure/Buy-out program
   - Housing Accruing Loan Opportunity Program
   - Affordability Preservation Assistance Program
4. Housing preservation unit
5. Lobbying for state and federal assistance

BACKGROUND EXPIRING SUBSIDIES

WHAT IS THE PROBLEM?

Beginning in 1961, federal housing programs provided low-interest loans and rental subsidy to private developers to construct and operate affordable rental units. Under these programs, after 20 years of regulated operations, private owners of low income housing units are allowed to pre-pay subsidized low interest rate loans or opt not to renew rental subsidy contracts, and to convert their housing projects to market rate rentals or condominiums.

These actions place the existing tenants who rely on federal subsidies in jeopardy. Paying off the loans removes the restrictions requiring the projects to maintain affordable rents. Not renewing the rental subsidies means that tenants will have to pay the full market rent on their units. In either case rents increase dramatically. Under the use restrictions rents were limited to 30 percent of tenant incomes or less ranging from $200 to $400 per month. Market rents for these buildings exceed $600. As owners convert to market rents, tenants can no longer afford to stay in their units, and the city's limited affordable housing stock will be reduced. About one-half of the affected tenants are seniors, with the balance low wage worker families and single parents.

Federal Housing Assistance Programs With Expiring Use Restrictions

Federal programs that allow termination of low-income use restrictions can be broken down into two main types: low-interest FHA-insured loan programs and Section 8 rental assistance programs.

Low-Interest FHA-Insured loan programs: These programs include Section 236 and Section 221(d)(3) Below Market Interest Rate loans. Owners of projects built under 221(d)(3) programs received low-interest FHA-insured loans in exchange for setting maximum rents and restricting apartments to low-income households.

Under Section 236 developers received a market rate loan and HUD paid a portion of the periodic debt service directly to the lender. In each case the benefit of the subsidy redounded to the tenant by lowering the rent required to support the buildings. While the mortgage runs for 40 years for projects built under these programs, in many cases the owner is allowed to prepay the loan after 20 years and raise rents to any level desired without any federal restrictions. These projects were built in the 1960s and 1970s and many are now reaching their 20 year anniversary.

Section 8

Section 8 programs in the city's affordable housing inventory include Section 8 New Construction and Section 8 Substantial Rehabilitation programs, as well as Section 8 set aside programs that are piggy-backed with federal loan programs. Under these Section 8 contracts, the federal government provides the project owner with the difference between a tenant's rent contribution (which is limited to 30 percent of income) and a higher rent set by HUD.

Unlike the Section 8 Certificate or Voucher programs, the Section 8 construction and rehabilitation programs in this inventory provide subsidies that are tied to the project, and cannot be used by the tenants if they move elsewhere. The duration of the Section 8 contracts ranged from fifteen to forty years. However, even though the contracts may allow many years of Section 8 assistance, some of the contracts permit owners to opt out every five years. If the owner decides not to renew for the additional five-year terms (because, for example, he could get higher rents in the open market than HUD will pay), the tenants living in those units no longer have rental assistance and would have to pay market rents.

Many projects contain both low-interest FHA-insured loans and Section 8 contracts. In these cases, the projects come into jeopardy at the earliest termination date under each type of subsidy program.

Local Programs

In addition to federally subsidized housing, local housing programs have also generated projects with expiring use restrictions. The city's Community Redevelopment Agency (CRA) and Community Development Department (CDD) began assisting privately owned affordable housing in the 1970s. The city typically reduced land costs, provided deferred payment secondary financing, and issued tax exempt bonds that reduced permanent mortgage financing rates. In exchange for this public assistance, private developers agreed to restrict rents, on some of the units developed, to be affordable to lower income families and seniors.

Like the federal programs, CRA and CDD rent restrictions were of limited duration. Most CRA projects carry 30 year restrictions which will not expire until after year 2010. CDD projects, on the other hand, tended to carry shorter restrictions, as low as five and 12 years, and those rent restrictions will begin to expire in 1992. In addition, the city has restricted rents through a small number of limited duration covenants on projects receiving density bonuses and other public development incentives.

WHY IS THIS A PROBLEM NOW?

Federal and local low-income use restrictions are temporary, and allow owners to terminate the subsidy after 15 or 20 years through prepayment of the low-interest

FHA loan, cancellation of the Section 8 contract, or expiration of the loan or contract term. Those termination dates began in 1988 for a handful of projects, and will phase out an increasing number of units every year over the next decade. There have been virtually no replacement projects created during the 1980s.

WHAT IS THE MAGNITUDE OF THE PROBLEM?

A major housing crisis faces low-wage workers and seniors in Los Angeles. The federal and local housing assistance programs that allow conversion of low income units to market rents will result in the displacement of thousands of low income families and seniors and the permanent loss of irreplaceable affordable housing. While the actual number of units affected is still being determined, at this time the following estimates of impact are being used:

Federally Assisted Units

Federal assisted units eligible to prepay mortgages:	9,145
Federal assisted units with expiring rent subsidies:	10,000
Total	19,145

Over the next five years, 3,400 units will be in jeopardy of being converted to market rate (680 per year). Thereafter, an average of 2,400 affordable units could be lost *annually*. By comparison, city programs preserve or construct about 5,000 units per year, less than one-half of which approximate the affordability of projects with expiring use restrictions.

Locally Assisted Programs

CDD assisted projects with expiring rent agreements:	1,800
CRA assisted projects with expiring rent agreements:	1,200
City housing covenants and agreements:	941
	3,941

NEED FOR A CITY STRATEGY

The Expiring Use Restrictions subcommittee was confronted with the dilemma of balancing the critical public need for affordable housing with the contractual rights of housing developers who produced and managed much of the city's subsidized housing over the past 20 years. Following are insights into this dilemma, and essential principles that should be considered when developing public policy on this issue.

Critical Findings

In the tight Los Angeles housing market, every lost affordable housing unit represents immediate hardship for a low wage family or senior citizen. Every affordable unit lost further destabilizes the housing system and threatens the quality of life in Los Angeles. Therefore, an affordable unit saved is of comparable social worth to a housing unit produced.

This is for the most part a problem created by the federal government but which impinges on the quality of life in the City of Los Angeles. Local involvement in preserving federally subsidized housing should be framed in terms of using local resources only as a last resort in the event that the federal government fails to meet its clear responsibility to resolve this problem.

Objective

The central objective of the city strategy is to preserve *all* units considered to be at-risk of being lost from the city's current inventory of privately owned, publicly subsidized affordable housing.

Doctrine of Fairness

The city strategy must balance the contractual rights of the owners of these properties with the public need to protect against the loss of critically needed housing. If the private sector is to participate in new programs, it must feel that it was fairly treated in preceding programs. The cost of conserving the affordability of critically needed housing should be shared by owners, tenants and government.

RECOMMENDATIONS

Five-Part Housing Preservation Strategy

The magnitude of the problem of expiring use restrictions is so large, and the impact is so concentrated on low income families and seniors that it demands special attention by the city. The following recommendations outline a comprehensive, focussed strategy to preserve Los Angeles' existing stock of subsidized housing.

The subcommittee recommends that the city undertake a five-part subsidized housing preservation strategy. The principle components are:

1. Monitoring
2. Regulation
3. Restructure/Buy-Out program
4. Housing Preservation Unit
5 Federal Government Response

The key component of the preservation strategy is the restructure/buy-out program through which existing or new owners work with tenants and the public sector to restructure project financing to extend affordability at least 20 years. The monitoring and regulatory recommendations are designed to channel projects into the restructure/buy-out program. A housing preservation unit is established to implement the program. And finally, a lobbying effort is recommended to bring state and federal resources to the subsidized housing preservation strategy.

RECOMMENDATION 1: MONITORING

In order to prevent the loss of affordable housing, the city's new Housing Commission must determine what projects are at risk of being lost and when the loss is likely to occur. This effort would be staffed by a housing preservation unit located in the Community Development Department. The preparation of accurate and up-to-date listings of subsidized rentals is a critical starting-point from which the city can formulate preservation strategies. The monitoring functions include the following:

Project Inventory

For all projects immediately develop a project inventory to include

- Location
- Owner
- Unit count and characteristics
- Tenant income and household characteristics
- Type of subsidy program involved
- Earliest date of subsidy termination

Identify High Risk Projects

Based on location, subsidy type, the potential for default and other relevant variables,

develop a list of high risk projects—that is projects with a high probability of converting to market rents. The high risk inventory should be updated annually.

High Risk Profiles

Within two years prior to the time that a high risk project reaches its subsidy termination date, the city should develop a detailed project profile.

The purpose of a high risk profile is to facilitate for the city the most favorable deal either for preserving the existing housing and preventing conversion or for buying out jeopardized projects. In either case, the city can determine if conditions or encumbrances exist that could preclude early termination or be used to leverage concessions from owners.

In addition, the profile enables the city to assess the impact of the conversion. This should involve *assessing the economic hardships on the tenants,* the estimated number of displacees and costs for relocating them, the replacement costs of the units, the presence of other vacant housing of comparable price, size, quality and location, and the availability of alternative subsidies.

The following information can be obtained from HUD and/or the building owner:

The Regulatory Agreement and Amendments including any Section 8 Housing Assistance Payments (HAP) Contracts and copies of the Deed of Trust. These documents will indicate such things as what rent restrictions exist as well as when and under what circumstances mortgages can be prepaid or contracts not renewed.

A History of Ownership to determine if the building had previous owners, who they were, and when the change in ownership took place. This information will help make the most effective use of potential tax benefits and other incentives to preserve the housing as affordable.

Proposals to HUD including all documents submitted by an owner to HUD concerning prepayment or possible prepayment of the mortgage and/or notification of cancellation of a Section 8 contract. It is important to know the owner's immediate and future plans.

Rent History and Tenant Composition to determine what options are available for individual projects. Requests of HUD should include financial statements, rent increase requests, rent schedules and information concerning the racial composition of the development. Finally, data collected should include information on tenant income levels. This information will help determine which tenants qualify for rental subsidies. It will also help assess how much new financing can be supported with rents affordable to the low-income tenants.

Physical Inspection Reports. Periodically HUD inspects subsidized buildings and prepares a report which outlines its findings concerning the building's physical maintenance. HUD has an obligation to review the situation before it allows a conversion.

Compliance with Federal Statutes

The Federal Emergency Low Income Housing Preservation Act of 1987 (see appendix) requires that HUD make a determination of the impact of the conversion on the project tenants, the local housing stock and the housing opportunities of low-income and

minority residents. This will involve assessing the economic hardships on the tenants, the estimated number of displacees and relocation costs, the replacement costs of units, the presence of other vacant housing of comparable price, size, quality and location and the availability of alternative subsidies. Close local scrutiny of this process will be essential to ensure that the statutory standards and timetables prescribed by Congress are implemented by HUD, and the project owners, including the intent that such projects be offered for sale to public and private non-profits. In addition, localities can monitor implementation of state statutes on notification to ensure that owners inform local governments and tenants about impending conversions in a timely fashion as prescribed under law.

RECOMMENDATION 2: REGULATION

The subcommittee recommends a moderate approach to regulation of owners of buildings with expiring use restrictions. The regulation component of the preservation strategy includes a reporting requirement, permits with fees, and extension of rent stabilization requirements to subsidized housing.

The purpose of regulation is four-fold:

1. Require owner participation in the monitoring function.
2. Protect existing tenants.
3. Provide an incentive for owners to participate in the Buy-Out Program.
4. Generate resources to support preservation efforts from properties converting to market rents.

Reporting

The subcommittee recommends that owners be required to participate in an annual certification of subsidized projects including rent data, type of public assistance used, status of subsidy contacts and intention to convert to market rental status.

Permits and fees

The subcommittee recommends that the city require that owners obtain a permit for every unit converted to market rate. Under the permit system the city should have the choice of granting a permit or providing financial assistance to the owner sufficient to extend affordability at least 20 years.

The cost of the permit will be set by the city at a level that will provide owners an incentive to participate in city assisted financial restructuring. Conversion permit funds will be used to subsidize work-outs and buy-outs.

Rent Stabilization

The city's current rent stabilization ordinance both protects existing residents of subsidized housing, and slows the market conversion process by restricting rent increases until the subsidized units are voluntarily vacated. If stabilized rents are maintained, this impediment to conversion will provide an incentive for owners to participate in a financial restructure or to sell to an owner interested in preserving affordability.

Enforce Zoning Requirements

In the case of senior housing, the city routinely makes concessions to developers in exchange for affordability. These most typically include density bonuses and reduced parking requirements. In the case of

parking, the city should require increased parking as a condition of granting a market rate conversion permit.

Federal Regulation

Congress acted in December of 1987 to temporarily forestall market rate conversions of subsidized housing with the enactment of the Emergency Low Income Housing Preservation Act of 1987. Congress found that the loss of privately owned federally assisted housing would inflict unacceptable harm on current tenants and precipitate a grave national crisis in the supply of low income housing that was not intended when HUD contracted with private developers 15 and 20 years ago.

The act requires that for two years, project owners intending to convert must submit to the Secretary of HUD for prior approval a Plan of Action that assesses the impact of the conversion on tenants and on the local housing supply. The act then requires that adverse impacts be mitigated by the project owner. The act stipulates (but doesn't fund) financing incentives to encourage continued low income status by the current owner or sale to non-profit owners.

RECOMMENDATION 3: RESTRUCTURE/BUY-OUT

The most direct way to preserve the affordability of privately owned publicly subsidized housing is to restructure the financing of projects with expiring use restrictions in a way that is advantageous to the property owner. One way to do this is to make it possible for the existing owner to take some cash out of the project in exchange for maintaining affordability. This is referred to here as "restructure." Another approach is to facilitate the sale of the project to a new owner interested in long-term affordability. This is referred to here as a "buy-out".

The subcommittee recommends that the city establish as the foundation of its preservation strategy a combined buy-out and restructure program. In both cases, buy-out and restructure, a sophisticated financial restructuring of housing developments will be involved. The arsenal of financial tools to accomplish this refinancing is varied and changing, and the most effective approach today will likely be supplanted by a new approach one or two years from now. Due to the changing nature of housing finance, the subcommittee does not recommend a single approach to refinancing projects with expiring use restrictions. Instead it recommends a process involving the city directly in creatively and actively refinancing projects.

The subcommittee offers the city two refinancing approaches to consider as it develops a more detailed restructure/buy-out program. The first, the Housing Accruing Loan Program, involves city guarantees of secondary financing. It is a program that would cost the city very little, but may require a vote of the electorate.

The second approach, the Affordability Preservation Assistance Program, involves tenant and owner concessions combined with multiple layers of public financing to extend affordability. Both approaches are presented for further development by the city. If it proves technically feasible, the Housing Accruing Loan Opportunity Program described below is by far the most cost effective preservation approach. For that reason, the subcommittee recommends that this program (HALO) be given highest priority.

Program 1:
Housing Accruing Loan Opportunity

The Housing Accruing Loan Opportunity (HALO) program is designed to enable refinancing of federally subsidized housing at little cost to the city. Rather than providing direct cash infusions to housing projects, the HALO program would put the full faith and credit of the city behind a second mortgage on federally subsidized apartments, that would enable the owners to obtain secondary financing.

Under this concept the owner would issue a note that promises to pay principal and accrued interest at the end of a 20+ year period. There would be no debt service payments required until the end of the two year period, and consequently, no impact on the rents. At the end of 20+ years time, the first mortgage will be paid down, and the purchaser of the note will have little risk that value of the note will not reside in the property. To further reduce the risk of the note, and to enhance its value, the city would guarantee payment. The discounted value of these notes is nominal but coupled with a guarantee of ultimate payment by the city they could be discounted for considerable cash, allowing the owner to withdraw some or all of his equity.

Benefit Provided to the City Under the HALO Program

In exchange for a loan guarantee, building owners would:

- agree to maintain the subsidized nature of the project for an additional 20 years, or
- agree to sell the project to a buyer, profit motivated or non-profit, who agrees to maintain the subsidized nature of the project for an additional 20 years.

Benefit Provided to the Owner Under the Halo Program

The owner would be able to pull cash out of the project and maintain the existing cashflow from rents. The bulk of the loan would not be due for 22 years or more. As an offset, the owner has burdened his future value by the amount of principal and accrued interest in the note.

HALO Loan Terms

There would be permitted the placement on the project of a second mortgage having the following characteristics:

1. The term of the mortgage would be 24 months beyond the termination of the underlying first mortgage, but in no event less than 20 years.

2. The amount of the mortgage would be the amount which, when added to the principal of the underlying first mortgage would equal the lower of (a) 75 percent of the appraised fair market value of the property valued as if the property were not regulated and subsidized; or (b) 100 percent of the amount which could be supported by the cash flow of the project if every tenant were at the maximum income level permitted to occupy the units and paying 30 percent thereof as rent.

3. The interest rate would be the current interest rate for second mortgages at the date the mortgage was created.

4. The second mortgage would not be in default so long as it were serviced to the full extent of cash flow, if any. Any shortfall will be added to the principal balance due and payable to the extent of future cash flow, if any, and/or at the final due date of the mortgage.

5. A guarantee of full and timely payment backed by the full faith and credit of the City of Los Angeles.

Item (5) would render the mortgage "financeable" as a zero coupon bond with the credit rating equal to that of the City of Los Angeles, enabling the sponsor to attain money from the project without affecting the rent-paying levels attributed to the tenants, but would not impose a current cash cost on the city. Since the mortgage will not be "payable" until after the underlying first mortgage has been fully amortized and paid, the second mortgage will be effectively a first mortgage before it becomes due and will not any significant risk of long-term liability. In effect, the economic burden of the continued subsidized rent levels is cast into a first mortgage on the property and at a time when it would otherwise be debt free. Reasonable maintenance and normal inflation expectations would render the debt "safe" and the actual risk to the city, minimal.

Note on Feasibility. Use of the city's credit may trigger voter approval and other requirements that must be explored by the City Attorney. If it is not feasible for the city to issue general obligation bonds, given other demands on city bonding capacity, secondary financing should be secured by alternative means.

Program 2:
Affordability Preservation Assistance

The Affordability Preservation Assistance Program (APA) brings state, federal and local cash resources to jeopardized affordable housing projects.

Restructure / Buy-Out Program Concept

Before converting their properties to market rate rents or to ownership units, owners of buildings with expiring use restrictions will be required to participate in a Restructure/Buy-Out plan through which their property would be restructured or sold in a way that extends affordability at least 20 more years. This restructure would involve discounting the appraised value of the property; modest rent increases and public capital and/or rent subsidies according to an established formula. If, based on the formula, sufficient public assistance is not forthcoming, the property may be converted to market rents or to ownership units.

Shared Responsibilities

This strategy operates on the principle that responsibility for preserving the affordability of publicly assisted housing must be shared by owner, tenant and government. The strategy preserves affordability by placing requirements on each of these participants. The strategy will require that owners of these properties accept discounts in value, that tenants agree to dedicate a large percentage of their income to rent and that the public sector provide some of the additional resources needed to complete the work-outs.

Owner Component

Owners will preserve the affordability of their assisted properties for 20 years through a work-out or would sell to a new owner willing to preserve affordability. Properties will be appraised to determine value if converted to market rents. The buy-out plan would provide the owner 85 percent of that appraised value upon sale. If the property is held by the current owner, economic benefit to the owner will be equivalent to a sale at 85 percent of market value.

Rent Component

Rents of all affordable units shall not exceed 30 percent of 60 percent of county median income as adjusted for unit size. Rents of affordable units renting at rates in excess of 60 percent of median before the workout shall remain at historic levels. (A procedure will be developed to address annual operating cost increases.)

Rents of current tenants will be brought up to the new rent levels through 10 percent annual increases. In no case will rents be increased beyond 35 percent of existing tenant income. Unless the units is subject to Section 8 or other rent subsidies, rent paid by tenant will not drop if tenant income drops.

Public Sector Component

In the simplest case, public sector secondary "gap" financing will be provided to the project to assure economic viability. The amount of this financing will be determined as follows:

1. The building is appraised based on market rents. A *restructure* will be determined based on 85 percent of the appraisal.

2. A *mortgageable amount* is determined based on new rent schedules (including rent subsidies if any). The mortgageable amount equals the maximum mortgage supportable at the best available financing rate.

3. A *restructure shortfall* will be established by subtracting the mortgageable amount from the workout price. The objective of the city is to bring public resources and incentives to the project that will reduce the restructure shortfall to zero. When this occurs, the project will be restructured using state and federal resources. Resources will include HUD insurance and co-insurance, tax-exempt financing, federal waivers of owner tax liability through recapture; Section 8 assistance, low income housing tax credits, property tax reductions, and other state and federal resources that may become available.

4. In some cases these resources may be adequate to make up for project shortfall and to assure project feasibility. Where this is not the case, the city will consider additional *gap loan* financial assistance, at the margin, to close the final gap and complete the project restructure. This assistance will come in the form of deferred payment secondary financing.

Types of Restructure

There are three alternative ownership options for expiring use restructures and buyouts; these include:

1. Sale to non-profit. Usually with a permanent lock-in of affordable units either as a rental or a tenant cooperative.

2. Sale to for-profit. With 20-year lock-in of affordability usually coupled with syndication of tax advantages to investors.

3. Continuation by current owner. Current owner continues under original use restrictions with some additional incentives provided.

Public Cost of Restructure / Buy-out Incentives

The report of the National Low Income Housing Preservation Commission to the House and Senate Subcommittees on Housing explores two approaches to preserving affordable units. The first, broad programmatic measures, included expansion and extension of Section 8 subsidies and tax credits.

The second approach involved project by project restructures combining rent adjustments, secondary financing, refinancing, Section 8 contract extension, and tax credits.

In the broad programmatic approach, the cost of preservation (net present value) was about $35,000 per unit. The cost of project specific prepayment remedies was $32,000. The total estimated cost of preserving 218,000 of 243,000 at risk properties was estimated to be $17.7 billion.

These figures are borne out in analysis by the Northern California Association for Non-Profit Housing (NPH), which found that the cost of buying out at-risk projects is about $30,000 per unit. This figure excludes federal costs of continued rent subsidies and tax credits.

Based on a cost of $35,000 to preserve one affordable housing unit for 20 years, and taking an average annual potential loss of 680 units per year over the next five years, solving Los Angeles' expiring use problem will cost $25 million per year. After 1992 the volume of jeopardized projects will increase to an average of 2,400 units per year. At that time the cost of curing the problem will be $85 million per year. This compares to current city housing expenditures of $90 million. Clearly the burden of saving the city's federally subsidize housing must be shared by the federal government, and the Affordability Preservation Assistance program assumes a significant role by the federal government. The annual cost to the city will be less than $25 to $85 million per year, but how much less depends upon the federal response.

RECOMMENDATION 4: HOUSING PRESERVATION UNIT

The seriousness of the crisis imposed on Los Angeles residents, and the city as a whole, by the loss of privately owned, publicly subsidized housing demands that special institutional focus be brought to the problem.

The committee recommends that the city establish a *single purpose* arm of a city housing agency that will prepare and implement a housing preservation strategy. A housing preservation unit would identify and describe federally assisted units in jeopardy, and pursue remedies on a project by project basis. The subcommittee emphasizes that this be a single purpose entity because the problem demands a singular focus. The housing preservation unit should be a facilitator of buy-outs and restructures and be an aggressive negotiator with HUD, project owners and new buyers.

The housing preservation unit will be responsible for these components of a preservation plan:

- Monitoring
- Regulation
- Structuring Buy-outs and Restructures
- Lobbying for State and Federal Assistance

The housing preservation unit will be housed in the Community Development Department but will work closely with the CRA and all other and all other city housing agencies as well as CDD. It will be designed to go out of business when the expiring use restriction problem is resolved.

As the entity responsible for implementing the preservation program, the housing pre-

servation unit must be aggressive and entrepreneurial. It must be able to respond to changing times and new opportunities.

The potential loss of affordable housing will occur over a 15 year period, and programs, resources, need and market conditions will change over that time. In addition, characteristics and economics of individual projects at any point in time are highly varied and suggest a preservation program tailored to individual project needs. It is therefore not realistic to propose a program with fixed incentives and rigid guidelines.

The Expiring Uses Subcommittee recommends that several preservation strategies be made available to the housing preservation unit so that restructure plans can be applied on a building by building approach. Key to such a flexible financing approach is the existence within the preservation unit of a technical team that can structure each restructure in the best interests of affordability and with the financial realities of the individual property in mind.

RECOMMENDATION 5: FEDERAL RESPONSE

Responsibility for solving the problem of expiring use restrictions can not be left solely to local government. This problem results from the failure of the federal government to continue its commitment to provide a decent home for every American. The subcommittee recommends that the City of Los Angeles join with cities throughout the state and across the nation in persuading our federal legislators to contribute to the solution to this problem.

The most direct federal assistance would be an expansion of the Section 8 program to provide incentives for restructures and buyouts. In addition there are dozens of program regulations that must be amended to accommodate restructuring of project finances. And tax policy changes including waiving recapture and extending low income housing tax credits to acquisitions of existing subsidized projects should be made immediately.

It is beyond the scope of these recommendations to detail a federal response to this problem, but it is essential that the City of Los Angeles become an active voice in Washington for new federal policy that will preserve the existing supply of subsidized affordable housing. The subcommittee recommends that the proposed housing preservation Unit be an expert lobbying force on this issue.

6. RECOMMENDATIONS OF THE SUBCOMMITTEE ON PRESERVATION

STATEMENT OF PURPOSE

The purpose of the Preservation Subcommittee is to consider policies, programs, and expenditures that will preserve the existing stock of affordable housing. Preservation refers first to the preservation of affordability, and second to the preservation of buildings. The subcommittee is particularly concerned with the loss of affordable housing. A useful way to conceptualize this loss is to consider the existing housing supply as a reservoir contained by a dam that is leaking. The responsibility of the subcommittee is to identify those leaks, and then find a way to stop them.

The committee makes two recommendations for immediate city action to slow the loss of affordable housing and better utilize our scarce housing resources. A second set of recommendations suggests four amendments to current city programs that would enhance the preservation of existing affordable housing. Combined, these recommendations address the absolute loss of physical housing stock through deterioration and demolition, and the larger problem of the loss of affordability through rising rents. In addition they suggest ways that current city housing efforts could be improved.

POLICY RECOMMENDATIONS FOR IMMEDIATE CITY ACTION

RECOMMENDATION 1: BUILDING PERMIT ALLOCATION

Recommendation:

Every year construction projects in Los Angeles demolish thousands of affordable units that are not replaced. The Blue Ribbon Committee believes that it is essential to encourage developers to replace affordable housing units and that the city's new Building Permit Allocation Ordinance presents an excellent opportunity for regulating the disappearance of the city's stock of low cost housing. A building permit allocation system is being developed in Los Angeles because the city's sewer system is inadequate and the city must restrict construction until major improvements are made in sewer capacity. The Blue Ribbon Committee therefore recommends that under the city's new Building Permit Allocation Ordinance lowest priority for the issuing of building permits should be given to projects that will result in a net reduction of affordable housing units.

Reasoning:

Affordable housing units are being removed from the market through demolition and conversion faster than public programs can replace them. This represents a loss of resources that can never be recovered.

Situation Analysis:

- Each year 4,000 units are demolished, approximately 80 percent of them are low income rentals.
- Approximately 100 units are converted to condominiums annually.
- An average of 1,000 units per year are converted from housing uses to commercial uses.

Financial Impact on the City of Los Angeles:

No major impact beyond administration.

Possible Impact on Affordable Housing:

The permit allocation system will slow the loss of affordable housing.

RECOMMENDATION 2: TARGETING RESOURCES

Recommendation:

Resources should be targeted first to those with greatest need. There should be a rational, public planning and budgeting process for allocating city housing funds. The City Council should annually assess and rank the city's housing needs, determine the total amount of housing funds available from all sources, and allocate funds to targeted needs. Allocations should be made in light of an annual evaluation of the productivity and cost efficiency of existing programs.

Budgeting should be specific as to program, income levels of beneficiaries (expressed both as a percentage of median and as a dollar amount), and neighborhoods targeted. Program budgeting should explicitly recognize that serving those in greatest need is a higher priority than leveraging resources.

All housing reports to Council should avoid using the term "low moderate income" housing and instead specify target rents and beneficiary incomes.

In the event that the city continues to fund improvement loans for owner occupied properties, loans should be provided only to very low income owners who would not qualify for private bank loans, and improvements should be limited to correcting failure of basic systems (plumbing, electrical, roof, structural).

Situation Analysis:

City programs are not targeted to households with greatest needs. City funds should be directed to sectors of the economy not served by the housing market.

- Lowest income households have severe rent burdens while households earning over $30,000 do not experience housing deprivation.

Income Range	% Paid for Rent Rent Stabilized Units	Paid for Rent Unstabilized Units
Under -$10,000	57.7%	67.7%
$10,000-$19,000	39.3%	44.0%
$20,000-$29,000	27.0%	32.5%
$30,000-$39,000	21.7%	26.2%
$40,000 +	15.4 %	17.3%

- Housing Deprivation:
  - 35,000 homeless; 25 percent are families with children.
  - 148,000 units are overcrowded.
  - 40,000 families living in substandard garage units.

There currently is no established policy or set of housing program objectives governing the use of city funds for responding to affordable housing needs. Most of the city's affordable housing programs have been

developed in response to state or federal funding requirements, and have been funded annually without review or evaluation of their record in addressing the rising problems of homelessness, of demolitions of brick buildings, of expiring federal subsidies or in diminishing the critical problems of rent burden and over-crowding.

The majority (70 percent) of the city's rental housing development and rehabilitation funds are targeted to assist households at 80 percent - 120 percent of median income, or $28,400 to $42,600 annual incomes. Fifty percent of CDD funds are used to improve single family owner occupied properties that in many cases would qualify for market rate bank loans.

FOUR HOUSING PROGRAM RECOMMENDATIONS

RECOMMENDATION 1: HOUSING IMPACT REVIEW

Recommendation:

One of the most serious impediments to resolution of the housing problem is the restrictions, costs and requirements imposed by the city itself. Examples of such restrictions include new earthquake laws, down zoning, interim control ordinances, building moratoria and development fees.

The city should adopt a policy that housing is a priority consideration in all land use, transportation and discretionary decisions. In all such decisions the Mayor and City Council should require that staff evaluate the effects on affordable housing provision and recommend mitigations of adverse effects. Review would apply only to broad policy initiatives, not individual projects.

Reasoning:

The mitigation requirements would result in the preservation or replacement of affordable housing that would otherwise be lost to public action or private development.

Situation Analysis:

One of the hidden leaks in the affordable housing system is the loss of development potential, intended or unintended, resulting from public action and policy.

Fiscal Impact On The City:

There would be an administrative cost as well as an increase in the cost of some public works and transportation projects.

Possible Impact On Affordable Housing:

A housing impact review could result in the modification of public policy that could cost the city thousands of units of affordable housing. It would also provide grounds for requiring mitigation measures of private development.

RECOMMENDATION 2 RENT STABILIZATION

Recommendation:

The city must have a rental housing policy that is fair to the tenant and the owner. Rent increases must be balanced between affordability to the renter and the interests of the owner. Capital improvements pass-throughs should be tied to the actual cost of improvements.

Financial impact On The City:

None

Possible Impact On Affordable Housing:

Landlords could invest their resources in alternate assets.

RECOMMENDATION 3: PURCHASE AND REHABILITATION OF MULTI-FAMILY HOUSING

Recommendation:

The city should cease multi-family rehabilitation loan efforts that push up rents and displace tenants. These programs should be replaced by loan programs that provide deeper subsidies which carry long-term affordable rent regulatory agreements. These programs must be designed to preserve affordability as well as improve the physical housing stock. The programs should encourage both existing and new owners to purchase and rehabilitate rental housing and maintain low rents.

Reasoning:

The best way to control the affordability of existing housing is to put it into the hands of owners whose objective is to maintain decent low cost housing. As long as affordable housing is controlled by owners whose investment decisions are driven by appreciation of the asset, there will be powerful incentives to raise rents. A purchase and rehabilitation program will remove units from that pressure by transferring them to non-profit ownership.

Situation Analysis:

Many lower income neighborhoods and affordable units are under enormous market pressure from new, higher income residents and commercial activity. The result is demolition, increased rents and the transformation of units and whole buildings that were once affordable to low income families and seniors into units that are now affordable only to higher income professional workers.

City operated multi-family housing rehabilitation programs succeed in causing private owners of affordable housing to improve their properties, but rehabilitation results in higher rents, and in the case of the Community Development Department, results in the displacement of one-third of the tenants. But, when rehabilitation programs include rent restrictions, owner participation declines dramatically.

Financial Impact On The City:

Purchase and rehabilitation with rent regulatory agreements will require more city subsidy to drive project economics than does a shallow subsidy program with no rent restrictions that depends on appreciation for project feasibility.

Thus, the rehabilitation of 1,000 units under a purchase and rehabilitation program may cost $30 million, while a straight rehabilitation loan program may cost $10 million. However, the $10 million program immediately reduces the affordable housing stock and continues to deplete it over time through gentrification.

Possible Impact On Affordable Housing:

The cessation of the city's shallow subsidy programs will immediately slow the loss of affordable units. Implementation of the purchase and rehabilitation program would slowly stabilize the market.

RECOMMENDATION 4: SLUMLORD TASK FORCE RECEIVERSHIP PROGRAM

Recommendation:

The City Attorney should develop a mechanism for condemning slum property which does not comply after repeated citations for violations, and clearing title so that owner-

ship can be transferred to a non-profit development and management entity. The non-profit owner would be responsible for building improvements utilizing a slum repair trust fund that could be established.

Reasoning:

In terms of annual production of rehabilitated units, the slumlord task force is the most productive housing program in the city—and it does this without city funds. However, when the improvement process is over, the building remains in the hands of one of the worst landlords in the city. The receivership program would not only rehabilitate buildings, but free their tenants from the domestic terrorism exercised by slumlords.

Situation Analysis:

The housing element extrapolates 1980 census data to indicate that 166,521 rental units are substandard, and that 111,066 of those units need rehabilitation. The aging stock is a problem, but units are not falling out of use in significant numbers due to deterioration because the high rent levels provide an incentive to rent any unit rather than abandon it. Slum properties are being exploited to maximize cash flow through deferred maintenance and overcrowding.

The City Attorney's slum task force maintains a case load of 100 buildings representing about 1,000 units at any given time. During the first six months of 1988 the task force forced owners of 1,500 slum units to bring their apartments up to standards of inhabitability. However, there is no mechanism to assure that buildings which comply initially with task force orders will continue to be maintained as decent, safe and sanitary housing.

Financial Impact On The City:

None

Possible Impact On Affordable Housing:

Would stabilize the worst slum housing in the city.

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